Tax Surprises

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Abstract: This study examines the performance measurement of internal corporate tax departments by leveraging semi-structured interviews with experienced tax professionals. A recurring theme across interviews is the importance of minimizing tax surprises. Participants generally define tax surprises as material differences between expected and actual tax outcomes, including cash taxes paid, audit results, and financial reporting effects, especially if the possibility of a difference was not communicated to other stakeholders. Interestingly, even favorable surprises reflecting unexpected material tax *savings* are often viewed as undesirable because they undermine the reputation of the internal tax function. Mitigating such tax surprises typically involves investing in people, processes, and technology, as well as enhancing communication between the tax department and other internal functional areas. We also find substantial variation in performance evaluation metrics used across corporations and a significant influence of how the C-Suite views tax planning. Our findings contribute to a deeper understanding of how unexpected variation in tax reporting is related to the strategic role and evaluation of corporate tax departments.

JEL codes: H25; L21; M12; M41

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I. INTRODUCTION

How are in-house corporate tax functions evaluated as their mandate expands from compliance and planning to enterprise risk management? Although tax departments were once primarily viewed as cost centers focusing on compliance or profit drivers focusing on tax planning, their role has evolved significantly—particularly following the Sarbanes-Oxley Act of 2002—which elevated risk management as a central function (Donohoe et al. 2014). Prior research has explored structural categorizations of tax functions into cost centers or profit drivers (e.g., Phillips 2003; Robinson et al. 2010; Gaertner 2014), but little empirical evidence exists on how performance is assessed when risk management is a primary objective. Notably, benchmarking surveys by the Tax Executive Institute (2005, 2012, 2021) consistently cite "lack of surprises" as the most common performance metric, yet the construct behind this metric remains ambiguous in both definition and practical application.[1] What constitutes a tax-related surprise? How are such surprises measured or avoided? And how do organizations differ in their tolerance and response to them? To answer these questions, we conduct semi-structured interviews with in-house corporate tax leaders and public accounting tax partners to understand how performance in the tax function is evaluated.

These questions are important for several reasons. First, taxes represent an economically significant cost for most firms (Dyreng et al. 2008; Graham et al. 2012), and tax department evaluation directly shapes tax outcomes (Robinson et al. 2010). Second, corporate taxation is inherently uncertain and risky, requiring significant managerial judgment over interpreting tax

[1] We note that recent studies have empirically examined different types of "tax surprises" in different contexts (e.g., Baik et al. 2016; Austin 2019; Kerr 2019). Our study seeks to better understand tax professionals' views on tax surprises and how they compare and contrast with existing academic literature. By bridging the gap between practitioner views and academic research, we believe our study both enhances our understanding of extant studies and provides opportunities for future research. See Section V for further discussion.

laws and complying with financial reporting requirements (Beck and Lisowsky 2014; Neuman et al. 2020; Brühne and Schanz 2022). Over time, the tax function has evolved from a compliance obligation to a profit driver and, most recently, to a strategic center for risk mitigation (Donohoe et al. 2014). These shifting objectives place tax leaders in the difficult position of balancing competing goals: compliance, profitability, and risk management (Maas and Matejka 2009). Third, the tax function requires task-specific knowledge and private information, creating unique agency challenges that influence performance evaluation and design (Jensen and Meckling 1998; Robinson et al. 2010; Indjejikian and Matejka 2012). Finally, despite growing scholarly attention to tax outcomes, the internal workings of tax departments remain a "black box" (e.g., Dyreng and Maydew 2018). By investigating how tax department performance around "tax surprises" is defined, measured, and managed in practice, our study sheds light on a critical but under-explored function within the modern firm.

To explore how tax departments are evaluated in practice, we conduct 25 semi-structured interviews. Specifically, we interview 18 leaders in internal corporate tax departments, as well as 7 experienced tax partners who work closely with corporate tax departments in consulting roles.[2] Including both participant groups is common in prior research because it provides diverse perspectives and triangulates insights across internal *and* external stakeholders (e.g., Brühne and Schanz 2022). Semi-structured interviews incorporate both structured and unstructured questions to allow participants (i.e., interviewees) to direct the conversation, enabling researchers to elicit rich descriptions of participants' lived experiences (Evans et al. 2015; Malsch and Salterio 2016). This approach is especially well-suited for our research question because it facilitates open-ended

[2] In particular, these professionals are tax partners or managing directors at Big 4 public accounting firms who work closely with corporate tax departments in a consulting role. We include these professionals because they work with a wide range of tax departments at a time.

conversation of complex, nuanced issues that are unobservable in archival or survey data (Malsch and Salterio 2016; Yin 2018; Hanlon et al. 2022). Our interview protocol focuses on participants' experiences with tax-related surprises and the organizational responses that follow them. Further, we ask participants about the goals, performance measures, and incentive systems used in corporate tax departments. This approach allows us to bring to light rich details about how performance is defined and managed within this specialized corporate function. See Appendix A for an example interview script.[3]

We recruit participants using personal connections, professional engagement programs at universities, and professional networking applications (i.e., LinkedIn). We obtain sample diversification in terms of industry and firm size. Representative industries include manufacturing, finance, energy, retail, chemical, and technology. The size of the sample corporations that employ our participants varies, with mean (median) market capitalization for public companies of $39 ($20) billion.[4] Most sample firms have significant multinational operations, and participants have extensive professional experience. For example, the in-house tax department leaders in our sample have an average of 18 years of experience while the public accounting consultants have over 25 years of experience.

Our results provide several novel insights. We frame these insights around three primary areas: (1) participants' views on tax surprises, (2) additional performance metrics considered by tax departments, and (3) the moderating effect of C-Suite attitudes on the role of tax in the organization. We also discuss the implications of these insights for future research.

[3] Although this script guides our interviews and aids in keeping consistency between participants, an advantage of the semi-structured interview method is that it allows direct conversation and follow-up questions (Yin 2018).
[4] The six private firms in our sample are relatively large private corporations. Our interviews reveal mean (median) annual revenues of approximately $4 ($3) billion.

A common theme in our results is that tax departments value avoiding surprises, which they generally define as material differences between expected and actual tax results, especially if the possibility of such a difference was not communicated to other stakeholders. This definition is broader than previous academic research that uses the term "tax surprises" and focuses on the interaction between the tax function, financial reporting function, and stakeholders outside the tax department, including top leadership of the firm, investors, analysts, auditors, and even customers. This definition of tax surprises also differs from ex-ante tax risk in that tax surprises are an ex-post realization that can be used as an observable input into performance evaluation decisions.[5]

Many participants highlight the importance of avoiding tax surprises, with some even indicating that doing so is "the biggest thing I've learned in my career" (TD1).[6] This finding is consistent with the notion that tax departments are increasingly concerned with mitigating risk (Donohoe et al. 2014). Importantly, our results reveal that "*no surprise is a good surprise"* (PA1), even if the surprise reflects tax *savings* or a *beneficial* change to the firm's financial statements. The reason that "good" surprises also tend to be viewed negatively is that they can harm the internal reputation of the tax department due to a lack of perceived reliability of the technical expertise of internal tax personnel. Our interviews further reveal potential mitigating or exacerbating factors of surprises, with communication and involvement of tax with other departments as a key factor, along with hiring the right people for tax-specific positions or making investments in information technology to make the tax function more effective. Tax department personnel also provide many specific examples illustrating how tax surprises occur in a variety of

[5] For example, Austin (2019) defines tax surprises as changes in the tax liability of the firm that are not a result of deliberate actions and focuses on the cash tax benefit of employees' exercise of stock options. Kerr (2019) uses a one-year scaled change in GAAP tax expense that is unexplained by earnings changes to measure tax surprises. Finally, Brühne and Schanz (2022) define several concepts related to tax risk. Our construct of tax surprises is most related to residual tax risk, which they define as the unmitigated tax risk that remains after implementing tax risk management practices and tax planning. Tax surprises are material realizations of residual tax risk.

[6] We use the abbreviation TD# (PA#) to refer to an internal tax director (external public accounting) participant.

contexts, including for both indirect and direct taxes. For example, many participants discussed sales tax surprises, echoing recent discussions about the importance of non-income taxes in practice (Dyreng, Hoopes and Maydew 2025). Participants also mention a wide range of consequences for tax surprises, from employment dismissal in extreme negative cases to increases in the tax department budget to mitigate future surprises.

The interviews also reveal substantial variation in performance goals and measurement within tax departments. While prior surveys suggest that executives anchor on the GAAP effective tax rate ("ETR") to evaluate investment decisions (Graham et al. 2017), many participants indicate that their firms are moving *away* from specific ETR-based targets as key performance indicators. In addition, there does not appear to be consensus in terms of viewing the tax department as a profit center, cost center, or risk management center, and many participants indicate their department is viewed as having multiple roles (i.e., a hybrid model), consistent with an evolution in the tax function over time (Donohoe et al. 2014).

Finally, we consider how resource allocation and evaluation of the tax department is influenced by the firm's C-Suite. Specifically, participants shared that the C-Suite attitude toward tax planning affects the investment in talent and technology necessary to avoid tax surprises. This rationale means that educating top executives on tax matters is often a critical skill for tax department leaders to be successful, providing deeper insights into prior research, such as why changes in leadership can trigger significant variation in ETRs (Dyreng et al. 2010).

Our study contributes to several streams of literature. First, we add to the growing body of research that leverages interviews with tax practitioners to generate nuanced insights into evolving tax phenomena (e.g., Brühne and Schanz 2022; Seidman et al. 2025; Beardsley et al. 2025). In doing so, we answer calls for more contextual and field-based research in accounting where

archival or survey data are insufficient (Ittner 2014; Bloomfield et al. 2016). Second, we advance the literature on corporate tax departments by revealing how a key performance metric—"lack of surprises"—is interpreted, operationalized, and experienced in practice. Notably, "lack of surprises" is widely identified in TEI surveys (2005, 2012, 2021) as a major concern for tax executives, yet the specific meaning and consequences of this metric are not well understood. We introduce this construct into the literature and define it based on practitioner insights so it can be examined in future empirical tax research. Third, we contribute to the broader performance management literature that examines how organizations set, measure, and respond to performance targets within specific business units (e.g., Bowens and Van Lent 2007). Finally, our findings speak directly to calls in Feichter et al. (2018) for more research into the drivers and consequences of setting performance targets, particularly in high-risk and expert-driven functions like taxation. More broadly, our study demonstrates how evolving strategic priorities reshape performance evaluation systems in ways that may not be visible through traditional archival research methods.

II. BACKGROUND AND FRAMEWORK

Corporate Tax Department Performance Evaluation

Research on performance evaluation within administrative divisions, such as tax departments, remains sparse. In multi-divisional firms, executives face challenges in developing and implementing relevant performance measures that are relevant to each division, given the characteristics of that division. Specific measures can be customized to monitor the strategic priorities of a particular business group, but additional measures are also employed to provide incentives for managers to cooperate in the presence of interdependencies between business units (Feltman and Xie 1994; Bowens and Van Lent 2007). For example, one measure may be more controllable by the tax department, while another may be more sensitive to effort or collaboration

across departments. Collaboration across departments is especially critical for evaluating the tax impact of transactions, because the tax department often needs to interface with various operational divisions to collect the necessary facts to correctly determine tax implications (e.g., purchaser locations from the marketing department to determine income and sales tax liabilities).

Robinson et al. (2010) consider tax departments as either profit centers or cost centers to examine how the divisional performance measurement of tax departments relates to the cost of transferring knowledge within the firm (Jensen and Meckling 1998). They find that the likelihood of evaluating the tax department as a profit center is increasing in firm decentralization and tax-planning opportunities. Additionally, they document that profit center firms are associated with lower GAAP ETRs than cost center firms. However, tax departments have since shifted their attention to risk mitigation as an important input to evaluating their performance (Donohoe et al. 2014). We use an interview-based approach to more broadly understand performance evaluation within the tax department given their evolving role, focusing on the definition, practical application, and consequences of the metric "lack of tax surprises" (TEI 2005, 2012, 2021).

Survey and Interview-Based Tax Studies

Prior research conducts surveys or interviews to open the "black box" of the tax function and address research questions not feasibly addressed using archival data. For example, Graham et al. (2014) and (2017) survey nearly 600 corporate tax executives to better understand their incentives for tax planning and tax rate inputs into important corporate decisions. Klassen et al. (2016) survey tax executives from multinational corporations to better understand firms' transfer pricing strategies and link the survey results to available archival data. The TEI surveys tax executives approximately every ten years to provide information about corporate tax departments (TEI 2005; 2012; 2021). Our approach using semi-structured interviews provides several

advantages over survey data, including the ability to discuss professionals' experience directly, ask follow-up questions, and learn about specific examples encountered in practice.[7]

Other research uses interviews with experts to gain insight into various aspects of tax planning, risk management, and disclosure. Feller and Schanz (2017) interview 19 German tax experts to reveal three hurdles of tax planning (i.e., availability, desirability, and implementability). Brühne and Schanz (2022) conduct 33 interviews with tax personnel, consultants, and regulators of German firms to determine how they define and manage tax risk, finding that internal and external stakeholders perceive tax risk differently. Seidman et al. (2025) interview tax executives at 26 publicly traded companies to develop insights into the tax audit process from corporate taxpayers' perspective. Finally, Richter et al. (2025) conduct interviews with tax executives at 27 U.S. public company tax executives to document how tax authorities influence tax footnote disclosure. This research stream provides important insights into various aspects of corporate tax department functions. Our study complements and extends this line of research by investigating the sources, consequences, and mitigating factors related to tax surprises, the most important measure of performance evaluation to corporate tax departments for several decades (TEI 2005, 2012, 2021). Further, we provide insights into the implementation of performance goals of corporate tax departments.

III. RESEARCH METHOD

We address our research questions using field study methods primarily because archival and survey data do not provide deep insight about the "black box" of tax department performance evaluation. Specifically, we conduct semi-structured interviews that provide direct insights about tax surprises while allowing participants to guide the conversation (e.g., Ittner 2014; Evans et al.

[7] Some survey-based studies augment survey data with interviews to shed additional light on the results (Bloomfield et al. 2016).

2015; Bloomfield et al. 2016; Yin 2018). Due to the advantage of providing direct evidence that is otherwise not obtainable using archival methods, semi-structured interviews have recently become more common in accounting research (e.g., Feller and Schanz 2017; Bills et al. 2018; Hayne and Vance 2019; Donelson et al. 2020; Brühne and Schanz 2022; Goldman et al. 2022; Richter et al. 2025). Below we summarize our sampling strategy, interview process, and data analysis approach.

Sampling Strategy

Because our goal is to understand performance evaluations with respect to tax department views on risk mitigation and tax surprises, we recruit personnel with extensive experience with corporate tax departments, both from internal tax departments and external public accounting firms that provide consulting services to corporate tax clients.[8] We require internal tax department personnel to be at the manager level or above, and public accounting personnel to be at the managing director or partner level. These requirements ensure that participants have the experience necessary to understand and discuss the performance evaluation of the tax department itself, our unit of analysis.[9] We interview both tax department and public accounting personnel because individuals in each group have a unique perspective that allows us to triangulate evidence from a variety of views, consistent with other tax interview studies (e.g., Brühne and Schanz 2022). The primary advantage of interviewing corporate tax department personnel is that they provide an

[8] We specifically recruit public accounting partners because they work with a wide range of tax departments at a time, as compared to internal tax leaders or external auditors, which gives them a unique ability to draw comparisons and comment upon trends.

[9] Our informal discussions with experts prior to starting interviews suggest managers (for internal tax departments) and managing directors or partners (for public accounting firms) are appropriate professional ranks to target because they are able to provide the insights necessary to address our research question. Our interviews to date have validated our use of these ranks, as participants rarely tell us they cannot speak to our specific questions about the tax department broadly. A notable exception is that some public accounting personnel have indicated that they are not privy to bonus or compensation schemes at their clients, so they cannot speak directly to size or frequency of bonuses. However, they are still able to speak to performance metrics that are important to their clients, how they are defined, and the consequences and outcomes associated with not meeting the performance goals.

"inside view" into the most important aspects of the evaluation of their specific department.[10] The primary advantage of interviewing public accounting personnel with extensive experience serving corporate tax departments is that they can provide broader insights into the similarities and differences across clients. We recruit participants using a variety of methods, including personal and professional connections, professional networking sites (i.e., LinkedIn), connections through university affiliations, and referrals from both participants and non-participant connections. None of the participants were compensated and all were assured of their (and their employers'/clients') anonymity to encourage more open discussion.

Our sample participants' firms vary in terms of industry and firm size. Consistent with prior qualitative methods research (e.g., Hayne and Vance 2019), the ability to make statistical inferences is *not* determined by a particular sample size, but rather by the point of saturation—that is, when several interviews in a row fail to provide novel insights (Francis et al. 2010; Malsch and Salterio 2016; Dai et al. 2019). We achieve saturation in our sample when the last 5 interviews do not reveal significantly new themes. This threshold is in line with prior literature, which suggests the point of saturation is often between 20 and 30 interviews. For example, Malsch and Salterio (2016) suggest that saturation occurs between 15 and 30 interviews, while Dai et al. (2019) note that the median number of interviews of more than 600 published interview-based studies from 2000 to 2014 is 26.

Interviews

From June 2024 to October 2025, we conducted semi-structured interviews with internal leaders of corporate tax departments, as well as tax partners and managing directors from Big 4

[10] When our participants have experience with more than one corporate tax department, we primarily ask them to focus on their most recent experience. However, we also follow up with questions asking about similarities and differences that they have experienced between different departments, especially over time.

accounting firms with extensive experience with corporate clients. See Appendix A for a sample interview script that we used for tax department participants, modified as needed for public accounting participants.[11] We used video conferencing software and recorded the interview with each participant's consent. The transcript provided by the video conferencing software was reviewed by the research team to ensure accuracy.[12] All interviews were attended by at least two members of the research team and were coded using NVivo[13] software. To elicit forthright responses, we assured the participants that their identities would remain anonymous.

We completed 25 interviews, with 18 corporate tax department leaders and 7 Big 4 tax partners/managing directors. Our participants have extensive experience working in or for corporate tax departments, with an average of 18 years for tax department leaders and over 25 years for Big 4 personnel. As shown in Table 1, the participants represent a variety of industries, including manufacturing, finance, energy, retail, chemical, and technology. While the corporations vary in size, the interviews we conducted represent relatively large corporations, with the average (median) market capitalization approximately $39 ($20) billion.

Although we requested a 45-minute interview, with the consent of the participant we often spoke longer, resulting in an average interview length of approximately 48 minutes and a range of 40-56 minutes. Based on the interview responses, we determined that participants are very knowledgeable as they provided detailed explanations and numerous examples that directly addressed our questions. In addition, participants appeared open and honest in their responses,

[11] For example, we ask about "the tax department at your corporate clients" rather than "your tax department" when interviewing public accounting personnel. At the beginning of these interviews, we also ensure the participant understands we will be asking about performance evaluation of their *clients*, not performance evaluation of the tax group of their firm (e.g., PwC, Deloitte, KPMG, or EY).

[12] In two cases participants did not consent to the recording. In these instances, we had at least three members of the research team take thorough notes during the interview, and we compared notes immediately following the interview to ensure accuracy.

[13] NVivo is qualitative data analysis software commonly used in qualitative research (e.g., Hayne and Vance 2019).

likely aided by our assurances of anonymity. For example, participants often shared situations where their tax department, or the participants themselves, made a mistake or missed something important. One participant noted "…there was an opportunity there that I didn't see before…Was I kicking myself I didn't think to do it before? Yes, of course. But you live and learn, right?" (TD7). Although our questions are not particularly invasive, these candid answers provide confidence that participants were forthcoming and truthful in their responses.

IV. RESULTS

Our interviews with tax department personnel and partners reveal several major insights. Overall, while the data reveal central tendencies, we also find areas of heterogeneity in responses. Below we discuss insights related to (1) participants' views on "tax surprises", (2) performance metrics considered by tax departments, and (3) the moderating effect of C-Suite attitudes towards the role of tax within the organization.

Tax Surprises

The first major insight from our interviews is that avoiding "tax surprises" is of particular importance to tax department performance. Our interviews confirm the importance of "lack of surprises" to corporate tax departments documented in prior surveys (TEI 2005, 2012, 2021). Our participants generally converged on a definition of tax surprises as a material difference between expected and actual tax results, especially if the possibility of the difference was not communicated to senior management. Tax surprises differ from ex-ante tax risk in that they are ex-post realizations of unmitigated tax risk that can be used as an observable input into performance evaluation decisions. This definition is also distinct from prior research using the term "tax surprises." For example, Austin (2019) defines tax surprises as an unanticipated change in tax liability that is a result of factors outside the firm's control. While our participants generally

consider unexpected changes in cash tax liability that are outside the firm's control as tax surprises, they also distinguish between tax surprises that are outside the tax department's control versus within the tax department's control, considering both as tax surprises. The value-relevance literature operationalizes tax surprises as the unexplained portion of the year-to-year change in total tax expense scaled by beginning of year assets (e.g., Thomas and Zhang 2011; Kerr 2019). However, our interviews reveal that a tax surprise may or may not affect the GAAP ETR (e.g., it could be related to an unfavorable audit outcome for which there was a reserve). For example, one participant provided this definition of a tax surprise:

> *A surprise would be either anything large, positive or negative, outside of our operational cash taxes paid, or tax rate.* (TD16)

To further explore the construct of tax surprise, we present a word cloud of participant responses (see Figure 1) and a hierarchy chart of tax surprise topics (see Figure 2). Figure 1 reveals concepts that are linked to tax surprises such as changes, people, communication, technology, processes, and forecasts. Many of these words relate to key mitigating and exacerbating factors of tax surprises discussed below. Figure 2 reports the concepts that are mentioned most frequently by our participants. For example, the participants discussed many exacerbating and mitigating factors of tax surprises, leading to our expanded discussion of these ideas below. We note that most of the responses coded to core tax surprise comments (e.g., tax surprise examples, mitigators of tax surprises such as relationships and communication, and consequences of tax surprises) are highly related to each other. This result echoes prior research, which asserts that components of tax risk are interrelated and not mutually exclusive (e.g., Neumann et al. 2020; Brühne and Schanz 2022).

Although our data reveal some overlap with the operational definition of tax surprises used in prior research, our participants also provide more nuanced perspectives (see Table 2 for more examples). Most participants highlight the importance of having no surprises from the tax

department and offer several examples based on their experience. For example, one participant stated the following when discussing what is important for the tax department's performance:

> *'No surprises' is the biggest thing I've learned in my career. You never wanna go into a CFO's office and now the quarter is done, there's nothing else you can do about it, and you have a huge hit to your rate that nobody was expecting, right?...If it becomes something that's like you're constantly coming in with bad news, then you lose. You lose trust from everybody. They start questioning whether you are technically able to handle it. So, there's a lot there you wanna make sure that you're keeping your reputation in check by being ahead of that and having no surprises.* (TD1)

The notion that surprises create loss of trust and that tax personnel want to maintain a strong reputation is consistent with prior research suggesting that CEOs incur reputational costs when their firm pays taxes that are either too high or too low (Chyz and Gaertner 2018). Tax departments work to build and maintain a strong reputation as part of their performance, and it is particularly important because other departments, or even the C-Suite, might not fully understand or appreciate the tax function as a whole. For example, one tax partner noted in a colorful way that avoiding surprises is important because other departments in the company do not fully understand or appreciate the tax function and do not think about it unless there is a "screw up":

> *[People in other departments] outside of the tax department are not really going to appreciate the tax compliance function or the provision…I tell my friends, it's almost like being an offensive lineman unless there's an issue or a screw up.* (PA6)

One important theme that emerged during our analysis is that *no surprise* is the ideal outcome, even if a surprise occurs that saves taxes or has a beneficial impact on the firm's financial statements. Participants often shared this perspective and provided concrete examples where even a "good" surprise was viewed negatively because the surprise could harm the reputation of the tax department with firm leadership. For example, one participant noted:

> *No surprise is a good surprise. Let's say they set their targeted effective rate for a given year at, you know, 25% and it came in at 20%. That would be very negative. You know, and again, this is one perspective, but I think it's fair to say that is somewhat consistently held*

> *point of view is that no surprise is a good surprise, even if it's going in a good direction.* (PA1)

In this example, a reduction of the rate from 25 to 20 percent would substantially increase earnings. However, from that participant's perspective, which they believe is a consistently held view in practice, this is a negative outcome. When discussing a similar situation of an unexpected rate *reduction* as a surprise, another participant stated:

> *The investors could ask you about it…Why is it so different from either what you said or what it was last year? And it can be discounted.* (TD4)

The view of the market discounting unexpected rate reductions is consistent with prior research that finds that stock market returns are significantly lower when firms beat analyst forecasts by decreasing their tax expense, as compared to other firms that meet or beat the forecast in other ways (Gleason and Mills 2008). In addition to the market potentially discounting unexpected earnings, several participants indicated that surprises, including "good" surprises, can harm the reputation of the tax department. One participant described it this way when discussing how a surprise can go either way, even one that substantially increased a tax credit:

> *A surprise is a mistake, good or bad. It can be a mistake in financial reporting. Could be a compliance issue like a miss in the tax return, or what's discovered on audit. They've never been terribly material. An example of a favorable surprise is scrubbing the history and discovering a tax credit in the tens of millions of dollars and should've claimed then, but thank God we discovered them now...It can shake their faith in tax leadership.* (TD2)

In sum, our participants provided consistent insights suggesting that avoiding surprises is a key component of tax department performance. Importantly, many participants pointed out that their goal is to avoid tax surprises. Even when surprises increase earnings, they are still viewed as failures of the tax function to adequately forecast tax outcomes, which can harm the reputation of the tax department by calling into question the technical expertise of the tax personnel.

Exacerbating and Mitigating Factors

Several themes emerged during interviews related to exacerbating and mitigating factors of tax surprises. The two most prominent were (1) investments in people, processes, and technology, and (2) communication and involvement of the tax department with business and operations. We discuss representative evidence of these two important factors, as well as other common exacerbating factors, below.

Investment in People, Processes, and Technology

Participants overwhelmingly asserted that ensuring the tax department has sufficient resources, including adequate talent, control processes, and technology, are key factors related to mitigating surprises. This insight is consistent with concurrent research that finds firms respond to the major U.S. tax reform in 2017 (a potential source of tax surprises) with a higher demand for tax employees with advanced technology competencies and data analysis skills (Giese et al. 2025). For example, one participant stated the following regarding people and systems:

> *We have a lot of different reporting systems and, from a tax perspective, I am relying on people around the world to put the right things into the system or relying on the fact that maybe they're consistent with what they upload into our consolidation system.* (TD1)

Another tax partner discussed hiring and training the right people, highlighting that the right people are hard to find:

> *Just making sure that you're hiring the right people. Like I said a little while ago the hot topic right now is just having a lean department, but then using technology to your fullest advantage. Those types of people are hard to come by ... You're either going to train in-house or you're going to go buy another firm or something like that to attain that knowledge.* (PA6)

These responses that "the right people" are important for the tax department function is consistent with recent work that suggests individuals that are internal to the corporation, including tax departments and directors, are the most influential for corporate tax outcomes (Belnap et al.

2024). It is also consistent with our results below that talent-related performance metrics are common within tax departments.

Several participants emphasized the importance of investments in technology, often highlighting changes in recent years. One tax director noted:

> *The biggest changes have been on automation and technology. That picked up steam in the last five years…Technology is so much more capable of things you had to do manually; you can do it faster…I'm interested in where AI takes us. That's going to change the landscape of what's going to happen in tax departments.* (TD6)

Another emphasized:

> *Technology makes a huge difference…the quicker we can get [nicely organized, clean data], the more time it gives us to actually look at it in that modeling phase.* (TD10)

To explain how their clients avoid surprises, one tax partner discussed increased investments in technology to improve information quality:

> *I've definitely seen more movement towards using technology, more and more people using some type of system for their provision…and more companies focus on trying to streamline the technology.* (PA2)

There is also an interaction between talent and technology. One tax partner emphasized that without the proper technology it will be harder to recruit the right people. They describe the advice they give to their clients as:

> *At some point in time you're going to need additional tech enablement, right? You're going to need to digitally upskill your people. You're going to need to understand how AI fits into things. You're going to need to understand advanced tools that are out there to help you move numbers…And the reason you're going to need it is not just necessarily driving efficiency. But people coming into your organization are going to want that, right? At some point in time, if you don't move the needle, you're not going to be able to attract talent. You're just not. Not quality talent.* (PA4)

Others note that investments in technology are partially in response to the difficulty in finding sufficient talent:

> *"It's a hard, hard time finding people to do tax jobs right now. We had the tax director role open for almost over a year. Before we could find somebody that was qualified enough to do*

it. So, I think… the harder it is to find people to do the job, I think the more technology you'll adopt. (TD15)

Communication and Involvement

Other key factors in mitigating tax surprises are communication and involvement by the tax department with the wider business organization. While previous research emphasizes communication with external parties as a mitigator of tax risk, our participants focus on coordination within the firm (Brühne and Schanz 2022). Many of the examples discussed by participants mention that a surprise could be created if the tax department was included too late in the business operating process or did not quickly communicate troubling findings. This insight is broadly consistent with survey evidence that, while tax departments have good cooperation within the company, most are not completely integrated into the corporate culture (TEI 2021). For example, one participant noted what could strain the tax department:

Lack of communication. All of a sudden, you know, it's a surprise, right? And now it's a fire drill where, hey, I'm filing in a week and now they got all these questions and they have concerns, right? They'd rather have the upfront communication and if there's a problem, at least I know about it, let's work through it. As opposed to sitting on it and it can be a delay so I guess that's the root cause of both lack of internal communication with accounting or controllership or, you know, communication with the external auditor. (PA3)

Another participant provided a specific example where tax was not included in the process of negotiating a deal, and it created a large book accounting surprise:

They did a deal where the book accounting did not involve tax. And they booked a tax affected element above the line and not to the tax accounts. And when we came in and at that point, we were actually helping them prepare the provision. We came in helping them prepare their annual provision and we go, holy crap. Somebody on the book accounting side booked this improperly. It's sitting above the line and it was an expense item. We said this was improperly booked. And then it had to trickle down and there was a lot of infighting on whose fault it was. And I don't know where the right answer was. Could I say that tax should have caught [it] that arguably anybody can say that, right? But at the end of the day, somebody who is at all doing entries should understand that tax element or you call your tax director up and say what's going on. (PA4)

According to our participants, the tax department is often overlooked because other departments do not recognize the relevance of tax until later in the process. One tax partner noted:

> *The only way how you fix that is because, you know, this stuff is going at warp speed too… Just communicate with people outside of your department just so they realize this stuff is not really black and white. I think a lot of times I hear…Well, come on, you know, it's one number or the other. And, you know, there's always a gray area in there. It's just like, how do you get to what position? Where are you going to put your chips and how are you going to defend that position?* (PA6)

Likewise, several tax personnel explain it in their own words:

> *It's my job to make sure I'm communicating, so if I'm the one that needs to go to the CFO and tell them the issue and tell them why. And it's more of an OK, how do we, I usually approach it as, OK, this happened. Here's the processes we're changing to fix it, so it never happens again.* (TD1)

> *We've been much more proactive. And much more communication with other departments. We don't want to wait until the end of the quarter to share information. We are much more partnership focused.* (TD6)

> *What another department does, that affects us. Or like, hey, we rolled out [a project] And they didn't think about the fact that we were going to have to [involve tax] and do reporting for that. I know that was another surprise that kind of had us going. And yeah, it's really just what the other departments are doing…So it was really important for us to not just sit in our corner in tax and get to know everybody and just always be available to talk to.* (TD9)

This evidence strongly suggests that a key factor for avoiding surprises is to ensure tax is communicating with other departments, rather than operating as a "back-room function" or "afterthought" (Donohoe et al. 2014). Mitigating tax surprises requires tax departments to work proactively with other departments even when other areas of the business are unaware of the importance of considering tax.

Other Exacerbating Factors: Multiple Jurisdictions and Indirect Taxes

Our participants commonly noted complexity from multiple jurisdictions and indirect taxes as other drivers of tax surprises. First, participants emphasized that a firm's tax rate changes any time the mix of earnings between different jurisdictions or total forecasted earnings change. This

is another reason why effective communication with the internal financial accounting function is so critical. A burgeoning number of jurisdictions with filing requirements is also an issue that multiple participants mentioned:

> *We're in most… jurisdictions, and on the sales tax front, it's extremely voluminous because a lot of jurisdictions are at the local level, they're not just at the state level. So, you have hundreds of filings every month for just one state. (TD17)*

> *It's a surprise like, oh, there's this commerce tax return in Nevada that is due at some weird, you know, it's in the middle of August for some reason, and you missed this or the commercial activity tax is a new thing in Oregon that popped up.* (TD9)

Quantifying and avoiding tax surprises due to tax audits can also be particularly challenging due to nuanced rules in multiple jurisdictions. One participant described a sales tax audit in Pennsylvania that they considered a surprise:

> *We had been doing it this way for a long, long time, and there was this Pennsylvania rule that we didn't know about. They came in and sent us a [material] assessment. I struggle with…how do we put a number or risk assessment on that?* (TD7)

Speaking of the importance of indirect taxes, including their impact on financial accounting earnings, one VP of Tax explained:

> *When I say cash tax, normally people think about income tax, but there is also sales tax, other types of taxes, excise tax and share buybacks…all these different things that we have to be mindful of. Any tax that falls within your EBIT rather than the tax line has a more meaningful impact to a company because analysts look at operating profit, EBIT, and EBITDA when looking at stock prices. (TD18)*

Finally, sales tax management is unique because it directly involves customers. Multiple participants noted occurrences when sales tax was not charged upon sale, leaving the company to either collect that tax from their customers after the sale, potentially damaging the relationship, or pay the sales tax themselves. One participant provided the following example:

> *Several years ago, we were not collecting sales tax on one of our products…We paid the tax, we didn't have to recoup that from our customers, but going forward, we had to send out notifications, we had to start collecting sales tax on certain customers, depending on where they lived. And they had questions, you know, they call into customer service, so*

yeah, the customer is impacted. Depending on the surprise, the customer could very well be impacted. (TD13)

Overall, our data suggest that the two most important factors for avoiding surprises are investments in people, processes, and technology and communication. Further exacerbating factors include managing tax issues in multiple jurisdictions and indirect taxes. These insights from our participants are informative to companies as they balance cost savings and risk mitigation.

Consequences

Participants suggest that the consequences of tax surprises vary widely. Some participants noted that their firms pay bonuses only on pre-tax results, while others reported witnessing tax department leader's bonuses being affected by tax surprises. From a broad perspective, one tax partner described it this way:

[Consequences] can vary widely. I mean, in one instance…this had to do with just a variety of different control issues, but, in the end, the, VP of Tax and the CFO were both let go, which was by far the most stressful experience in my entire career. I'm glad that did not repeat itself. I would say that was definitely an extreme case, but it is an illustration of what, you know, what consequences can sometimes be. More commonly what I would say is it was maybe initially performance evaluation consequences. So, lower bonus, things of that nature. But, surprises tended to be just not tolerated, so oftentimes there would be, you know, bringing a new tax leader would be an example of a response. Another common thing that I saw done with frequency actually would be to put tax underneath a controller. (PA1)

While dismissal appears to be an extreme and relatively infrequent consequence, it was also observed by several other participants. For example:

On the extreme side, because somebody needed to be a scapegoat, I have seen people be let go over surprises or bad news...Sometimes that's repackaged as things like early retirement, or whatever key terms they want to use. But I've definitely seen that end of things. I've seen big monetary changes. Your bonus, which could be 100% of your base pay being practically zero, so the effects can definitely be monetary. I've seen them force a change. Say they were doing everything in house, somebody, whether it be C-suite or audit committee or board, somebody will say you're going to have to go and use a third-party advisor. If they felt like it was the third-party advisor's fault or not [their] fault, but you know they could have [or] should have caught something then, maybe forcing a change. I've seen changes between the Big 4, because somebody came in and said you can't use them anymore. They screwed this

up. I see a lot of mid-market changing to Big 4 because somebody higher up says that they want a Big 4 firm coming in to solve things. (PA2)

That one almost actually led to the tax director getting fired. Because the finger pointing that occurred, right? (PA4)

Tax surprises can have especially extreme outcomes in foreign jurisdictions. One participant provided the following examples of foreign tax audits:

In Russia, this was years ago, I mean, we're in what seems like a routine value-added tax audit. Without warning, the Russian government came in with guns, seized all of our computers, took them for 3 days, and then brought them back…Or, we had an audit in Brazil…We're used to just arguing about dollars and cents and tax and fines and penalties and interest and things like that. But when they start threatening, like, 'hey, we're gonna take the managing director of the business, and we're actually gonna throw her in jail', as a result of this… then, you know, the negotiating table kind of changes a little bit...Or we had an audit in Mexico, and they said, 'we're going to assess you [a very large dollar amount].' Our business in Mexico is… I'd say we only make [less than one tenth of that amount] a year. [It was] more than the net value of the whole business. (TD12)

Despite rare consequences for top executives noted above, our participants did not mention C-Suite protection as a major objective of tax surprise management. This observation contrasts with Bruhne and Schranz (2022), who find "CFO protection" to be a tax risk management objective in 76% of their interviews with German firms. This may relate to the fact that the board and C-Suite can be held personally liable for corporate taxes under German tax law. This difference in findings may indicate that features of a country's underlying tax and legal system influence how tax departments respond to risk.

More common consequences relate to implementing systems to mitigate surprises in the future, speaking to technology's importance as a mitigating factor. For example, one tax director spoke about the consequences of not collecting sales tax from customers on one of their products:

After review, we had to put up a fairly large reserve. That was a shock to the business unit leader, a shock to our CFO. Now, the problem with that is… we also had not only the revenue impact from the tax. We also had a revenue impact for having to now implement software that we didn't have that was very expensive and very time-consuming for a lot of folks to implement. At one point, we had a hundred…. It's gonna sound silly to say, but there were a

hundred people working on implementing because it had to be across so many different systems. (TD13)

Several participants viewed surprises from a different light, and even from a positive standpoint because it led to improved processes or even additional resources allocated to tax. One tax director noted that creating a plan to deal with a surprise in the future can significantly reduce the negative consequences:

You know you have your plan for dealing with it now. Your plan for dealing with it in the future, and as long as you lay that out, I've never had really anything negative happen. They're like, yeah, it's frustration, but at the same time, nobody else in the company understands tax as well as I do or my team does, right? So, they're like, OK. Yep, I get that you're gonna change your process. That's great. That's how we need to do it. OK, keep going. (TD1)

Another participant noted that, although a tax surprise occurred and it was not viewed as "good," the bright side was that the tax department was able to increase their budget and hire additional personnel to avoid such surprises in the future:

I've seen some positives out of it where the tax department's been able to justify that they need more resources and budget to hire some additional personnel. (PA2)

Likewise, another tax partner described a situation where a surprise resulted in additional resources. In this instance, the tax department was requesting additional resources which were not initially approved by the CFO. However, after a surprise, the budget was quickly approved:

A company's tax department was thinly staffed and kept talking about, hey, we need more bodies. We need to invest in technology. [The CFO said] "Hey, the process isn't broken. We've had no issues on the provision. We're not going to approve anything, right?" They did some complex planning, did it wrong or missed some stuff. Material weakness. Right. Well, all of a sudden they're like, well, this shows you were right. You needed more people. You needed technology. Your budget's approved. Nobody got fired. (PA3)

Overall, our interview evidence supports the notion that avoiding tax surprises is an important component of corporate tax department performance evaluation. Tax departments work to avoid surprises, both "good" and "bad" surprises, because either type can harm the credibility of the department and can lead to consequences such as lost bonuses or even dismissal. Another common

response is to increase resources allocated to the tax department to avoid such surprises in the future. These resources are often used to strengthen mitigating factors discussed above, such as technology and talent.

Important Evaluation Metrics

Our discussions highlight several metrics used to evaluate tax departments, consistent with prior research that highlights the trade-offs of using any one measure (Feichter et al. 2018). For example, a manager's bonus may have an incentive component tied to earnings per share, but the tax department would also be evaluated using more tax-specific measures, like cash tax savings. To summarize, we group responses into major categories and report in Table 3 how frequently they are mentioned.

We find that the most frequently mentioned metric is "Cash Taxes" by 88% of the participants. The second and third most cited metrics were "Project-based Non-Cash Objectives," and "GAAP ETR," by 68% each. Representative examples of project-based non-cash objectives include software implementations, resolving tax controversies, and "days to close" (i.e., the number of days it takes to prepare and report a required tax form or tax return). We discuss comments about ETRs in more detail below. "Talent-related Matters" and "Compliance" were close with 60% and 56% of participants mentioning these goals, respectively. We coded issues such as inclusion, headcount, mentoring, training, and retention as talent-related goals. Overall, the emphasis on tax expense and nonfinancial measures rather than aggregated accounting return measures is consistent with prior research that business units are more likely to use disaggregated and nonfinancial measures as interdependencies among business units grow, since tax outcomes are highly related to the activities of other departments (Bouwens and Van Lent 2007). It is also

consistent to our interview evidence discussed above that talent factors are key to managing tax surprises within the organization.

We also analyze the discussions with participants to provide more nuanced insights into the features of metrics used by tax departments. Some emerging themes include the determinants of the measures selected and differences in the tax department's perception as a cost, profit, or risk management center.

Determinants of Evaluation Metrics

Participants often compared metrics across employers or clients, and at the same firm over time. They expressed that the leadership style of the CFO, tax status of the firm, maturity of the firm in its life cycle, and time trends influence the measures used to evaluate tax departments. These results are consistent with prior research that suggests corporate leadership can influence the tax function and change focus over time (e.g., Dyreng et al. 2010; Ege et al. 2021; Wilde and Wilson 2018). Their thoughts on evolving attitudes towards tax aggressiveness were particularly insightful. For example:

> *KPIs [Key Performance Indicators] are changing. You know, we had a period where organizations didn't want to end up in the press, right? A period of talk and paying fair share and corporations are evil and this, that, and the other thing. So, I do think there was a stagnation of aggressiveness that occurred. I think that's shifting a little bit, right? And I think, you know, we'll see under the Trump administration if that shifts even more.* (PA4)

Participants expressed that rather than achieving a particular GAAP ETR target, firms in recent years are more likely to consider the broader potential costs of the tax process. This view mirrors the shift of tax departments to a risk mitigation focus (Donohoe et al. 2014) and is also consistent with survey results that ETR measures are less commonly used as performance metrics of tax departments in 2021 (44 percent) as compared to 2012 (53 percent) (TEI 2012; 2021). The shift is also notable compared to tax executives' responses in 2007, where 84 percent of executives

responded that top management cares at least as much about the GAAP ETR as cash taxes (Graham et al. 2014). For example, one tax partner noted that firms consider these questions:

> *Are you in the right structure? What are you doing from a planning perspective? Are you setting up for a reasonable compliance process? You can structure a sophisticated investment in a lot of different ways, some may be rate neutral, but come with a lot more compliance obligations or operational considerations.* (PA5)

Consistent with its role in avoiding tax surprises discussed above, participants expressed that communication is a key factor in navigating potential misunderstandings. For example, one tax director noted:

> *I do get asked questions of why does [competitor] have a lower tax rate than us this quarter? That's an opportunity to dig in and educate why looking at the ETR is a poor metric in my view.* (TD2)

In addition to risk mitigation factors discussed above, a tax managing director expressed that the heterogeneity between firms is another factor driving a shift from specific GAAP ETR targets to measures with more adjustments:

> *I don't see as much as I used to around the pressure to hit exactly a specific ETR percentage or stay within a certain cash expense number. A while back we used to see that where you had to. It seemed very tied to that. I see a little more variety now than what used to be. I think, because everyone's patterns are so different… with one random quarter or a year, where you have a big credit, then your ETR is completely different, or releasing a [valuation allowance], or putting on a [valuation allowance]. So, the ETR metric seems to be less important, although still something people pay attention to.* (PA2)

Cost, Profit, or Risk Centers

In terms of being viewed as a cost, profit, or risk management center, our interviews reveal variation in how tax departments are viewed within and outside the firm. Table 4 provides descriptive statistics and representative quotes from participants. A common theme is that tax departments view themselves as different *combinations* of cost, profit, and risk management centers, consistent with balancing dual (or triple) objectives (e.g., Maas and Matejka 2009). In particular, 56% of tax department personnel responses indicate that their department is viewed as

a profit center, but large groups also viewed themselves as cost and risk management centers (50% and 39%, respectively). This is consistent with survey evidence that tax departments are often evaluated using economic profit as well as cost-saving measures and the goals we discuss above (TEI 2021). To illustrate these multiple viewpoints, one tax department leader indicated their department is a combination of a profit center and risk center:

> *I've heard the CEO say tax is a profit center. From the audit committee's perspective, tax is a critical audit matter, always high risk...Tax is an area of high risk, but we've also proven that if you've got a bunch of astute tax people surrounded by helpful advisors, tax can have significant savings. Probably wouldn't say that tax is a cost center.* (TD2)

The quote above suggests that TD2's tax department is viewed as a combination of profit and risk management center. Others viewed the role of the tax department as a combination of all three. For example, another tax department leader stated:

> *Those are the 3 things that they [leadership] want. Reduce costs. Reduce spend, pay less tax, and do it all correctly, and don't get pushed back.* (TD3)

The responses from public accounting personnel corroborate the notion that corporate tax departments are viewed as different combinations of cost, profit, and risk centers. Interestingly, they are more likely to say that tax departments are viewed as cost centers than tax department personnel. One tax partner suggested that some companies might be more one type than the other, but it depends on the company and other considerations such as the level of conservativeness:

> *It does depend on the company. I think sometimes companies that maybe are very conservative companies that view it as a necessary evil…it's a compliance function.* (PA3)

Another tax partner highlighted the variation in how tax departments are viewed. Specifically, in their view there is always an element of cost center and risk center:

> *All over the board, you know, I think in all instances there is an element of cost center and risk center in all companies where [to] some extent tax will always be viewed as both a cost center and a risk center. And I think the risk center is getting to be, has gotten to be more prominent. As time has passed, you know, there's more of that awareness. You don't wanna be on the front page of [the] Wall Street [Journal].* (PA1)

Robinson et al. (2010) analyze 1999 survey data and note that subsequent tax shelter regulations and Sarbanes-Oxley reduce the prominence of profit center tax departments. Our interviews suggest less of a binary choice between a cost or profit center and more of a balance of priorities. We note that while tax department personnel appear to view themselves predominantly as profit centers, most participants also provide indications of focusing on risk mitigation to some extent. Given our use of semi-structured interviews, we consider the notion that even if "a participant did not mention a particular point does not mean they did not support the point" (Trotman and Trotman 2015, p. 209). Therefore, even if a participant does not specifically mention being part of a risk center, we still consider evidence of risk mitigation as an important aspect of the tax department's performance evaluation. As discussed above, mitigating risk and tax surprises appears to be a common goal for most, if not all, tax departments.

Moderating Effect of C-Suite Views on Tax

Our interviews revealed C-Suite views on the role of a tax department as a moderator that influences mitigators of tax surprises (i.e., tax department resources) and tax department goals. For example, the following participant provided a concrete example of how leadership responded to a sales tax surprise by immediately providing the resources required to avoid similar surprises in the future. In short, a top executive was surprised by an issue in the tax department, and the participant explained the response as follows:

> *Once [anonymous executive] gets involved, it's funny how things really expedite and people find a way to do things. We reached out [about the issue] several times and said "There's no way we can do it. We can't, the technology is just not capable of it." But then, you know, the top brass gets involved and then all of a sudden it happened. It was miraculous.* (TD9)

Multiple tax department leaders also shared how they had been affected by leadership changes. One participant explained why tax department resources change when a new CFO is hired:

> *Leadership has changed, right? So, there might have been different leaders had different thoughts about tax and how tax fits with the puzzle and how forgiving they are on when things happen. Or maybe there was the prior CFO that maybe didn't think that it was important to spend money on tax, right. So, on tax planning and things like that. So, then there was a different threshold of maybe then it was more of a compliance job versus actually like planning and being proactive. So, I think it always depends and even in my prior life I had four different CEOs and the last one didn't think the tax planning was as important, which is why I left* (TD1)

Other participants noted that the C-Suite's opinion determines if the tax department is viewed as a profit, loss, or risk center. For example,

> *It's a view of tax. I would… let me just….say that there's a view of tax as compliance versus a revenue generator. And I think the two CFOs had a different mindset.* (TD13)

The CFO's attitude toward tax also affects the level of investment in tax planning. Not all executives are interested in tax planning opportunities, even those that have high return on investment for their consulting or staff fees. One VP of Tax explained:

> *I had a CFO once tell me 'We are not a tax planning company. We need to focus on profits.' And I said 'Absolutely we should be focusing on profits, but at the same time, when I'm offering you 10 to 1 returns, why wouldn't you do that? I mean it's cash in your pocket, right?' But there's different schools of thoughts with that.* (TD1)

Varying attitudes on the importance of tax planning means that educating top executives on tax matters is a critical skill for leaders in the tax department. Another participant described why this is key for tax department leadership:

> *The C-Suite left to their own devices is just gonna [have a consulting group] come in and tell them that, you know, you should be able to do this for… you should be able to run this whole tax department with 5 people...why do they have 38? And then I have to spend….Hours and hours and hours kind of re-educating people about, you know, why it is that we need to do what we do.* (TD12)

Tax partners in public accounting firms agreed that the C-Suites' perception of the tax function is the primary reason why tax goals differed for different clients. One tax partner also described audit committee interest in tax planning on a spectrum, from those who are interested in achieving an "optimal" tax rate to those that are not involved in tax planning at all.

> *[Some audit committees are] very proactive in terms of interest in tax planning and achieving an optimal effective tax rate and even interested in the staffing department and so that was, and one end of the spectrum. I would say on the other end of the spectrum you'd have audit committees… [that are] pretty disinterested, frankly, in anything tax.* (PA1)

Another partner expressed that each executive's priority on tax depends on their view of their investors' priorities:

> *It's a company culture thing, but sometimes if a new CEO or CFO comes in. And let's say the company, you know, it could go either way, right? It could be a company that was very compliance focused and do a lot of planning. They're going to make an investment and do some planning. And, you know, that's what we should be doing, right? And it could work the other way where the CFO comes in and says, you guys spent, you know, [a large amount] on consultants last year, you know, what for? Well, it drove down the ETR. He might be like, you know, I don't care. Our investors are more EBITDA focused.* (PA3)

However, one participant instead attributed their CEO's views as motivated by consumer's perceptions of their company and desire to avoid bad press.

> *I think it starts from the CEO and his concern, is more so being out of the headlines. We don't want to be seen by the public, you know, who are our consumer base… We want to be seen as a pillar of the community that pays its fair share.* (TD14)

Overall, our interview evidence suggests that C-Suite attitudes, and even audit committee attitudes, influence the importance of tax planning within an organization and the metrics that the tax department is evaluated on. This phenomenon provides insight into the mechanisms behind several prior studies. For example, it may partially explain the large economic effects of CEO and CFO changes on GAAP and Cash ETRs (Dyreng et al. 2010). C-Suite attitudes on the role of tax may also influence MNEs differing internal priorities for transfer pricing (Klassen et al. 2016). It

is also consistent with prior research that finds only some firms aggressively seek to minimize their ETR (Feller and Schanz 2017). However, it notably differs from Brühne and Schranz (2022), who find that different types of external pressure is what causes variation in tax risk management practices in German firms.

V. FUTURE RESEARCH

Our study reveals several avenues for future research. First, our findings highlight the importance of interaction and communication between the tax function and others within the organization, including the C-Suite, board of directors, and key operational units, such as sales. Future research could investigate how the CEO, CFO, and tax department personnel personally interact to influence tax outcomes within the firm. These open questions relate to the growing literature on how individual decision makers affect accounting practices and corporate tax outcomes (Hanlon et al. 2022; Belnap et al. 2024).

For example, our participants suggest that CFOs who work with a value-oriented tax function earlier in their career are more focused on tax planning at other firms. Under what circumstances do these professionals adapt to the existing culture of the tax function at a new company? How do their goals influence employee outcomes within the tax department, such as the retention or the level of outsourcing to consultants? Why do some CEOs care more about bad press than others, given limited evidence of tax reputational costs (e.g., Asay et al 2024)? Carefully comparing views of tax risk between our participants to Brühne and Schranz (2022) suggests that features of a country's underlying tax and legal system can also influence how tax departments respond to risk. Are there tax departments that are focused on CFO protection in the absence of regimes that hold executives personally liable for corporate tax outcomes?

A second potential avenue for future research is further investigating responses and consequences to tax surprises. Our results suggest significant heterogeneity across firms, and future research could investigate additional responses and consequences for both internal and external stakeholders. For example, how and why do the outcomes of tax surprises differ from other types of earnings surprises? Prior research shows that market returns are significantly lower when firms beat analyst forecasts by decreasing their tax expense, as compared to other firms that meet or beat the forecast in other ways, but more outcomes could be considered (Gleason and Mills 2008). Our interviews suggest that positive surprises may still damage the reputation of the tax department. Future research could investigate if positive tax surprises are more "damaging" to careers than other types of positive earnings surprises. Future work could also examine the financial returns or employee retention effects for investing in tax department people, processes, and technology. Ideally, investments in tax technology or better forecasting for the firm overall would result in higher internal information quality. Researchers could investigate if the implementation of new tax systems indeed leads to better outcomes within the tax department. For example, due to direct interactions with customers, do investments in sales tax technology enhance customer relationships and profitability?

Third, our study informs future research on how to measure tax surprises. Our interviews suggest that tax surprises is a broad and multi-faceted construct. We encourage future research to clarify the specific aspects of surprises they are interested in studying and develop measures suitable for the specific research question.

Finally, participants commonly comment on trends over time in the corporate tax function. For example, some of our participants mentioned that firms are decreasing their reliance on GAAP ETR as a performance metric. Are investors also considering a wider range of tax metrics? Do

firms with a wider focus manage other tax outcomes, such as cash taxes paid, more effectively? Additionally, our participants commented on loosening regulation and enforcement under the Trump administration. If looser regulation and enforcement manifest, they could have major effects throughout the firm. In a tax context, they may influence some managers to expect lower potential regulatory and reputational costs from tax planning and revert to a profit center mindset.

VI. CONCLUSION

This study investigates the common performance measure "lack of tax surprises" through semi-structured interviews with internal tax department leaders and external public accounting personnel. We confirm that tax departments value avoiding tax surprises, even when the tax surprise could be considered a "good" surprise (i.e., it increases book income). We find the consequences of tax surprises range widely – from tax executive or CFO dismissal to approval of a greater future budget for the tax department. While our results reveal significant heterogeneity among tax departments, one key insight is that firms appear to be moving away from specific ETR targets as an important metric. Finally, the C-Suite's view on the role of tax within the organization emerged as a key moderator of tax department resources and goals, which contributes to its ability to mitigate tax surprises.

Overall, this study contributes to the literature by documenting detailed views related to performance measurement of corporate tax departments, particularly tax surprises, which tax executives view as the most significant measurement to evaluate corporate tax departments over the past few decades (TEI 2005, 2012, 2021). We look forward to future research that builds on these insights.

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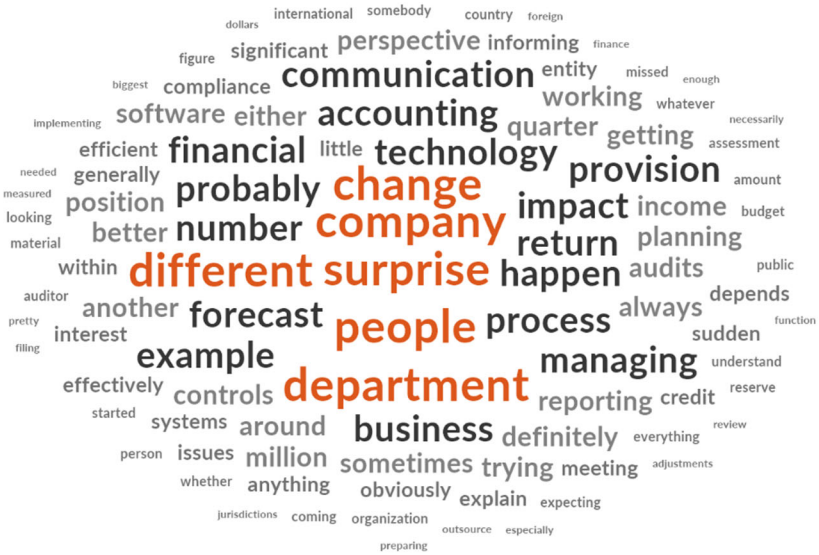
APPENDIX A: SAMPLE INTERVIEW SCRIPT FOR TAX DEPARTMENTS

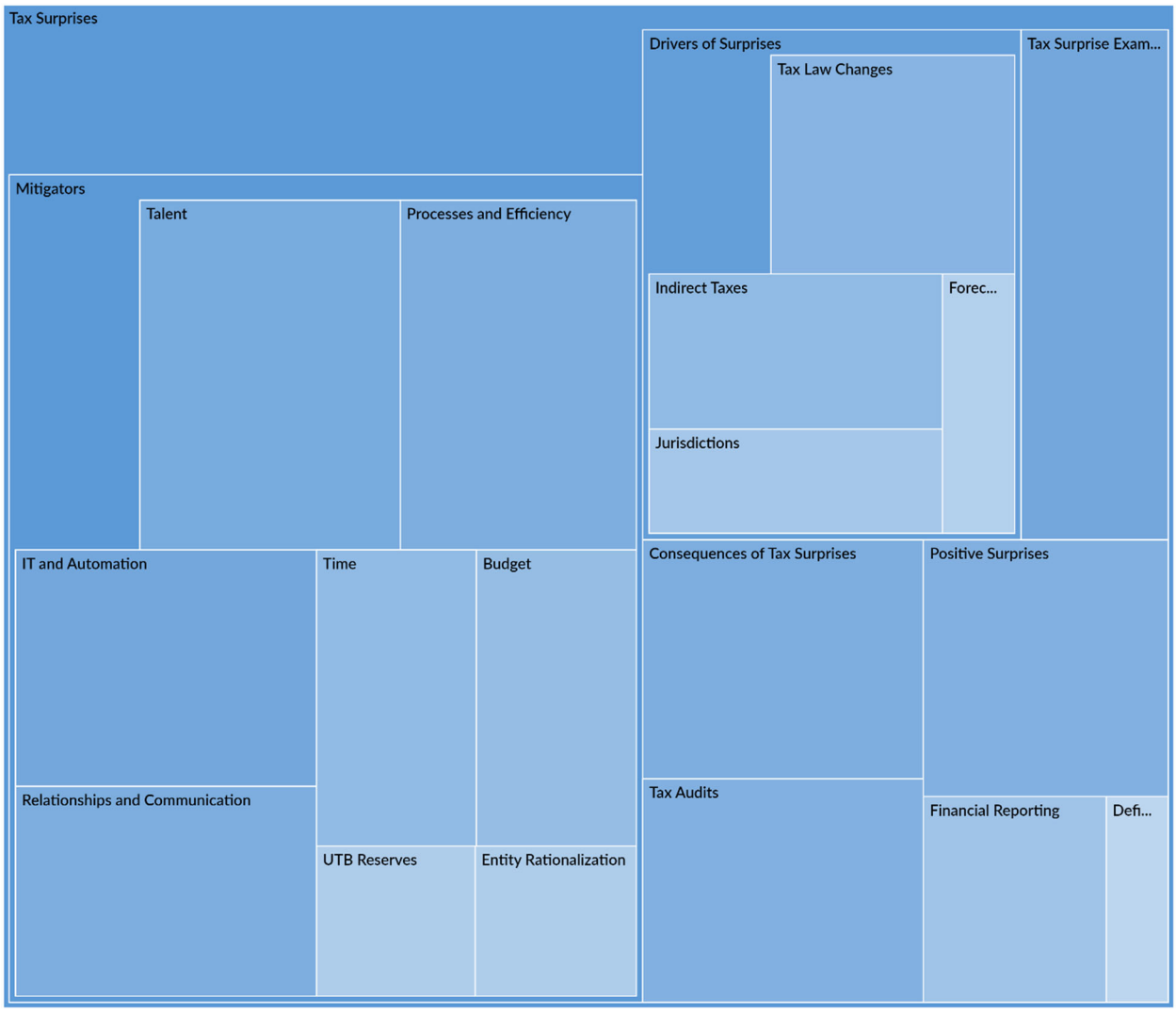
1. Please tell us about the structure of your tax department.
   a. How many people are in the tax department and what is the approximate organizational structure (i.e., layers of staff, managers, etc.)?
   b. Who does the head of the department report to, and how does that reporting take place?
2. Please tell us about the performance goals of the tax department at your firm.
   a. What specific measures is the tax department evaluated on?
   b. Who sets the performance goals for the tax department?
   c. How do the performance goals for the tax department differ from the rest of the firm?
   d. Objective vs. subjective measures?
   e. Compare to peers or competitors?
   f. Cost center, profit center, or risk center?
3. The Tax Executive Institute conducts a benchmarking survey approximately every 10 years that seeks to provide information about corporate tax departments. One of the most important measurements used by companies to evaluate tax departments is "lack of surprises." What would you say is the definition of a "surprise" within your tax department?
   a. What are the drivers of surprises (top three types/forms of surprises)?
   b. How are surprises (or similar concept) measured?
   c. Are surprises measured relative to peers/competition/other?
   d. Could you give us an example of a surprise you encountered, how you responded, and the ultimate outcome? Another example?
4. What are the consequences or outcomes of a surprise?
   a. Who is ultimately held responsible?
   b. Does your company distinguish between surprises that are outside of your control and those you can control? How is that determined?
   c. To what extent do surprises affect rewards/bonuses? Can you give us a sense of the magnitude of bonuses?
   d. What outcomes have you seen personally?
   e. Are you aware of another company that experienced a surprise? What were the consequences at that company?
5. Who are the interested parties as they relate to surprises?
   a. (If not mentioned, prompt for): Internal to the company, external to the company
   b. Are surprises viewed differently for internal vs. external?
6. What are the most important strategies for avoiding or mitigating surprises?
   a. Have you ever avoided a surprise?
   b. Do you take steps to proactively avoid surprises? How do you respond to surprises?
   c. Are there aggravating or mitigating factors?
   d. If a surprise does occur, what steps are avoided to mitigate or avoid future surprises?
   e. Does the strategy for dealing with a surprise change for different types of surprises?
7. Do you believe your responses to any of the questions above have changed over time?
8. Is there anything you thought we would ask about but didn't? Or is there anything else you care to elaborate on further?

FIGURE 1
Word Cloud of Participant Responses related to Tax Surprises



Notes: This figure presents a word cloud of participant responses related to tax surprise topics. We require words to be greater than 5 letters and remove stop words to highlight content-specific words.

FIGURE 2
Tax Surprise Topics Hierarchy Chart



Notes: This figure presents a hierarchy chart of participant responses related to tax surprise topics. The size of each topic's box and darkness of the shade indicate the number of participant references to the topic.

TABLE 1
Descriptive Statistics

Panel A: Corporate Tax Departments

Code	Title	Industry	MNE? (Yes/No)	Total Years Experience	Interview Length (Minutes)	Market Cap
TD1	VP Global Tax	Machinery Manufacturing	Yes	20-24	42	Small
TD2	Chief Tax Officer	Chemical	Yes	30+	55	Large
TD3	Senior Tax Director	Retail	No	10-14	50	Private
TD4	Tax Director	Energy Technology	Yes	15-19	45	Medium
TD5	Senior Manager	Retail	No	10-14	48	Small
TD6	Director Tax Strategy/Senior Director-Global Income Tax Accounting	Industrial Supplies/Equip	Yes	15-19	50	Large
TD7	VP Tax	Machinery Manufacturing	Yes	20-24	52	Private
TD8	Senior Tax Manager	Financial Services	Yes	20-24	46	Large
TD9	Tax Manager	Sporting Goods Manufacturer/ Distributor	Yes	10-14	46	Private
TD10	Tax Projects, Reporting, and Compliance Senior Manager	Retail - Clothing	Yes	10-14	32	Medium
TD11	Director - Tax Accounting	Building Tech/Energy Efficiency	Yes	15-19	53	Large
TD12	Senior Tax Director	Beverages	Yes	15-19	48	Private
TD13	Director	Financial Services	Yes	20-24	52	Large
TD14	Manager, International Tax	Consumer Goods Manufacturer	Yes	10-14	45	Private
TD15	International Tax Director	Machinery Manufacturing	Yes	15-19	40	Medium
TD16	Senior Tax Director	Technology Manufacturing	Yes	25-29	45	Large
TD17	VP Tax	Distribution/Logistics	Yes	15-19	45	Private
TD18	VP Tax	Hospitality	Yes	15-19	45	Large
			Average	**18.2**	**46.6**	**$38.7B**

Panel B: Public Accountants with Corporate Tax Clients

Code	Title	Total Years Experience	Primary Industry	Interview Length (Minutes)
PA1	Tax Partner (recently retired)	30+	Various	47
PA2	Tax Managing Director	15-19	Energy	56
PA3	Tax Partner	20-24	Manufacturing/Various	46
PA4	Tax Partner	30+	Consumer/Transportation	55
PA5	Tax Partner	20-24	Financial	48
PA6	Tax Partner	20-24	Consumer/Industrials	53
PA7	Tax Partner	30+	Consumer/Industrials	50
	Average	**26.1**		**50.7**

Notes: This table presents information about the characteristics of our participants. MNE (Yes/No) indicates if the company has multinational operations. Market Cap (reported for public companies only) is based on market capitalization as of April 16, 2025, or date of the interview, whichever is later. Small companies have market capitalization less than $1 billion USD, Medium companies have market capitalization between $1 billion and $10 billion, and Large companies have market capitalization greater than $10 billion.

TABLE 2
Examples of Surprises

"Bad" Surprise Examples
No surprises is the biggest thing I've learned in my career. You never wanna go into a CFO's office and now the quarter is done, there's nothing else you can do about it, and you have a huge hit to your rate that nobody was expecting, right?...If it becomes something that's like you're constantly coming in with bad news, then you lose. You lose trust from everybody. They start questioning whether you are technically able to handle it. So, there's a lot there of you wanna make sure that you're keeping your reputation in check by being ahead of that and having no surprises. (TD1)
A surprise would be that the team goes and performs a debt restructuring, and has already executed signed agreements before, and then they bring tax in and learn, Oh, this is gonna cost a [material amount] of cancellation of indebtedness income, that obviously is a surprise that no one wants, which caused a lot of heartburn. (TD3)
My mind goes straight to audits, just because that's something that you. It would probably be a surprise under audit. They find something, and you either didn't have a reserve out there because obviously it's a surprise to you. So, there's an impact to the rate, for one, but then also from a cash perspective. (TD5)
A large audit assessment... That would be a surprise. There are other surprises. I mean, anything that would cost the company more money. (TD8)
A company didn't realize that some of their foreign subs was filing amended returns. So, some of the foreign tax that they had paid, they got refunded, but they had used that same foreign tax for a foreign tax credit in the US. So, all of a sudden, now we have a 905C adjustment. And the department didn't realize this for nine months, a year later. That, you know, somebody went ahead and filed this amended return, and you know, got a refund. So, obviously that was an out of period and it rose, we felt, it rose to a level of a significant deficiency. (PA3)
We at [anonymous company] had a tax audit in one of our foreign countries, and really, we're not thinking it was going to be a big deal, and got ended up getting handed a really large assessment for it. So, there was a lot of scrambling, obviously, to minimize the assessment, like, regardless of metrics and everything, you want to just get that tax amount as low as possible. And so, we were doing that. But we had to write like a lot of memos and have a lot of calls about what amount we were going to record in our financials because you can get handed an assessment, and you're not necessarily just gonna outright pay it. Then you're at a point where you're fighting with the government and the auditors to figure out what were we going to record (TD4)
"Good" Surprise Examples
If you have a big enough of a surprise like an adjustment. So, if I said my tax rate was going to be 25, and I came in at 20, that's big enough that it stands out. So, when you're issuing your financial statements, the investors could ask you about it…Why is it so different from either what you said or what it was last year? And it can be discounted. (TD4)
No surprise is a good surprise. Let's say they set their targeted effective rate for a given year at, you know, 25% and it came in at 20%. That would be very negative. You know, and again, this is one perspective, but I think it's fair to say that is somewhat consistently held point of view is that no surprise is a good surprise, even if it's going in a good direction. (PA1)

Now, it could be a good guy's surprise as far as you know. Hey, we thought our R&D credit was going to be [a material amount] and all of a sudden we went through it and it's [a much larger amount] And hey, that's a surprise to me. It could be, especially if you have to communicate up as far as hey, we got this benefit that we didn't expect. And then, whether it's the CFO or somebody may say, well, you know, why now? Why didn't you know about this sooner? (PA3)
We had an entity that we were liquidating and there was no, we hadn't done a deferred scrub in a while. Deferred seemed to get us apparently and there was a liability that was sitting there for a pension that we were able to write off. And it was a big number, right? But again, it was a surprise. It was not what we had budgeted for, so it ended up having to be called out. So, they called it out as a non-GAAP adjustment because it was so big and you don't want to be just on. You don't want to just have a tax adjustment. It was beneficial to us, for sure, but it still didn't end up benefiting the rate in the end because we called it out as non-GAAP anyway. (TD1)
We have this expansion of a facility in Kentucky, which was started in 2022, circa all the Inflation Reduction Act stuff and all of the clean energy credits. And we are partnering with someone who's going to take our waste product and effectively turn that into renewable natural gas…. The P&L benefit for this is actually going to go through COGS, not through the income tax expense line on the financial statements. So, I think that we just weren't synced up, and, you know, the tax department kind of knew about these credits. We don't really deal with, like, COGS forecasting and whatnot. Like, we assume that the supply chain function was doing something like that, and through further conversations, it kind of came out that, like, wow, okay, nobody took any credit for this, you know, potential opportunity that we have. So, I think that was a positive surprise, just from, I think, lack of communication and accountability between, like, the silos within an organization. (TD12)
[Anonymous Company] has airplanes, and we fly our customers in from all over the world… My thought was always well, it's coming back to Wisconsin. We're going to, regardless of where you purchase it from, you purchase it exempt. But it's coming back to Wisconsin. You're going to have a use tax. We reached out to some public accounting firms and attorneys and lo and behold, guess what? They have this structuring planning that you can do to get out of the Wisconsin sales tax. (TD7)
The [Anonymous Company] was able to sell their credit for a lower number than they would have had they known about this in advance. So, it's still free money, but not as good of money as they could have had. And so, they're still unhappy with that surprise. (PA2)
Both "Good" or "Bad" or Non-Directional Surprise Examples
A surprise is a mistake, good or bad. It can be a mistake in financial reporting. Could be a compliance issue like a miss in the tax return, or what's discovered on audit. They've never been terribly material. An example of a favorable surprise is scrubbing the history and discovering a tax credit in the tens of millions of dollars and should've claimed then, but thank God we discovered them now...It can shake their faith in tax leadership. (TD2)
We want to make sure the CFO isn't surprised. Modeling out the implications of tax law changes – it could go this way or that way, we don't know, but need to model it out (like TCJA or BEPS) and explaining it up the chain. You do not want to surprise the CFO. It's really important you speak to people who are not tax people and explain you how they impact our financials. (TD6)

The surprise can go either way, right? So, it could be a bad surprise, but it could be. And I actually have another example on a good side. Where there's an opportunity that we didn't know about and we potentially missed...It was a surprise to me. Is kind of a good surprise in that we did save this money. Was I kicking myself that I didn't think do it before? Yes, of course. But you know, you let you learn, right? (TD7)
A surprise could be something that I discover that within our U.S. Compliance that needs to be discussed, and you know, it depends, too, on what the timing of that is. Sometimes it happens is that provision, there's a few surprises there that… Can't really foresee until you're in it, and then sometimes you get surprises while you're preparing the return. (TD14)
Plenty of situations where people have gone back and looked at a work paper 2 or 3 months later and gone, you know, whoa, this was missed, or that was missed, when you're doing maybe, a tax gain or loss calc of seismic proportions, things like that…A lot of times we'll just have to figure out a way to kind of smooth that over in our numbers. There's different things that we do, and we try to look at it kind of holistically, because a lot of different pieces go into an income tax provision. (TD11)
I think it depends on the dollar value, right? Any surprises are not good, whether it's a good or bad, right? Because you're forecasting the rate, and you have all these built-in things. You're calculating your EPS based off of those rates, so any kind of surprise, good or bad, is never good. (TD15)
When you actually go and file the tax return, if it's significantly different, then you're having to make this big cash outlay with the tax return. Now, you're also subject to the underpayment penalties and interest. That's definitely a surprise for quite a few people. I've seen it the other direction, too, though. We got to the return. Now we've overpaid by quite a bit. People aren't typically happy with that, either, and that they feel like they could have managed their cash flows better if they'd not paid in more to the Government than needed. (PA2)
The way I view that is they want to avoid fire drills. They are tax people, accounting in general, right? They like to be methodical. Certain personality, right? They don't want to have a fire drill or feel stressed. And lack of communication. All of a sudden, you know, it's a surprise, right? And now it's a fire drill where, hey, I'm filing in a week and now they got all these questions and They have concerns, right? They'd rather have the upfront communication and if there's a problem, at least I know about it, let's work through it. (PA3)
The biggest surprise I believe that could occur is if at the end of a reporting period, right, and more meaningfully at the end of an annual reporting period. There is an unexpected rate fluctuation. Something that could have been caught by tax. (PA4)

Notes: This table presents indicative evidence of tax surprises, including "bad" surprises, "good" surprises, and a combination of both "bad" and "good" or non-directional surprises.

TABLE 3
Summary of Important Performance Measures Identified

Measure	Number of Mentions	Percentage of Participants Mentioned
Cash Taxes	36	88.0%
GAAP ETR	32	68.0%
Project-Based Non-Cash Objective	25	68.0%
Compliance	17	60.0%
Talent-related	20	56.0%
Specific Tax-Planning Projects	18	44.0%
Budget and Cash Flow Management	13	44.0%
Timeliness	8	32.0%
Accuracy	12	28.0%
Avoid Bad Press	11	28.0%
EPS	11	28.0%
Non-GAAP Adjusted ETR	10	24.0%

Notes: This Table provides a summary of the mentions of particular performance measures. Because of the semi-structured interview format, participants would indicate important performance measures in different ways and the coauthor team put them into major categories based on the response. We asked an open-ended question about what metrics are important in the evaluation of the tax department and did not specifically ask participants about each of these individually. The number of mentions column differs from the percentage of participants mentioned column when participants name multiple examples within a category, for example, multiple specific tax planning projects.

TABLE 4
Tax Departments as Profit Centers, Cost Centers, or Risk Centers

Panel A: Tax Department Responses

Category	Number of Participants	Percent
Profit Center	9	50%
Cost Center	8	44%
Risk Center	6	33%

Panel B: Public Accountant Responses

Category	Number of Participants	Percent
Profit Center	3	43%
Cost Center	7	100%
Risk Center	4	57%

Panel C: Representative quotes

We're seen as bringing cash in or saving cash. So that's good, a seat at the table. I've been very fortunate to be at two different companies that both give tax a seat at the table, so that's great. I've never been seen as a cost center. I've never been seen as a compliance function only and I don't know that I would thrive in that type of atmosphere, right? I wanna be someone who's constantly, you know, hey, we have this going, this project going on. Let me let me tell you about it ahead of time so you can help us plan to the most efficient tax answer. (TD1)
I've heard the CEO say tax is a profit center. From the audit committee's perspective, tax is a critical audit matter, always high risk...Tax is an area of high risk, but we've also proven that if you've got a bunch of astute tax people surrounded by helpful advisors, tax can have significant savings. Probably wouldn't say that tax is a cost center. (TD2)
Those are the 3 things that they want. Reduce costs. Reduce spend, pay less tax, and do it all correctly, and don't get pushed back. I would say that the risk side is the last in our department. (TD3)
It probably depends on what stage you are in the business. So at [Company], I would say the CFO understands the planning ideas that we were doing in terms of reducing the tax rate and the cash taxes and our value...Also a risk center just in terms of there's lots of risks of like financial statement issues, audits, things going on with taxes. (TD4)
I feel like we're very focused on audits and minimizing a risk to that perspective, to just try to. Have favorable outcomes in those audits. (TD5)
We're not viewed as a cost center, we're viewed as a partner (TD6)
I like to consider us a profit center, you know? My goal and I feel good about it is my tax department is paying for itself. (TD7)
All over the board, you know, I think in all instances there is an element of cost center and risk center in all companies where some extent tax will always be viewed as both a cost center and a risk center. And I think the risk center is getting to be, has gotten to be more prominent. As

time has passed, you know, there's more of that awareness. You don't wanna be on the front page of Wall Street that kind of stuff. (PA1)
Cost. No one likes us... I still see in my client base that we're still just like a necessary evil kind of a cost, to be mitigated as much possible (PA2)
It does depend on the company. I think sometimes companies that maybe are very conservative companies that view it as a necessary evil…it's a compliance function. (PA3)
I think there's a bit more of a willingness to look at the tax function as a profit center. Because you're actually dealing with cash tax, right? I think for those in NOL positions, I think it's more of a cost center, right? And I think there are some I think in my mind, it's either risk. It's either cost or profit center. I think a risk management center I think kind of permeates through both of those, right? I think there's a baseline expectation of risk management. (PA4)
I would definitely say it's risk and managing the risk tolerance is probably the number one, while saying, are they a cost center. (PA5)
I think that it really depends on…the maturity of the company in general. Where they're at. So if you're a startup company and if you're in a tech space, you're probably not paying tax. So you probably look at it more as you know, am I protecting against risk? (PA6)

Notes: Panel A (Panel B) presents summary statistics on whether a tax department leader (public accounting partner) identified tax departments as cost center, profit center, or risk center. Totals are not 100 percent because participants frequently identified tax departments as more than one category. Panel C provides representative quotes from both tax department leaders and public accounting partners.