



Tax inquiries soar

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Tax inquiries are on the rise. All around the world, tax authorities have subjected businesses in their jurisdictions to an increasing number of inquiries over the past three to five years, new research reveals, and are expected to continue to increase over the years to come.

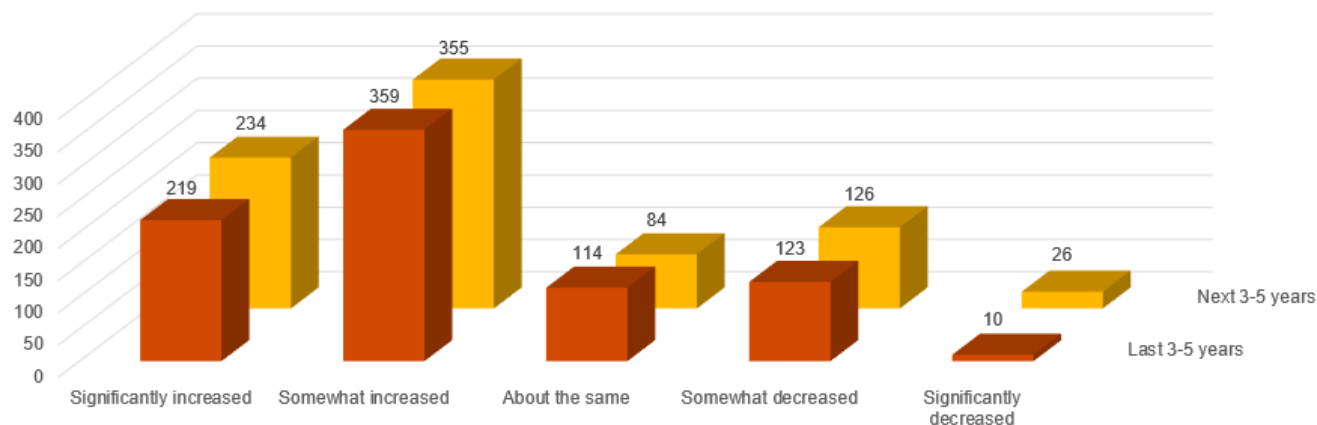
Almost three-quarters of the 825 businesses surveyed (71%) report that they have faced an increase in tax inquiries from regulators over the past three to five years (see Figure 1). The same number expect tax inquiries to increase over the next three to five years. Fewer than one in five businesses has seen a decrease in the volume of inquiries received or expect to see a decrease in the near future.

The findings underline the growing workloads that many businesses' tax functions are now having to deal with, as the burden of dealing with tax inquiries continues to escalate. Businesses face both the immediate pressure of responding to tax inquiries in a timely and thorough manner, and the concern that inquiries may develop into full-blown disputes, putting further pressure on resources – and raising the prospect of unexpected costs and additional uncertainty.

Indeed, many businesses taking part in this research warn that a significant proportion of tax inquiries subsequently evolve into more formal and demanding cases. While the nature of the initial inquiry may vary enormously – ranging from a relatively mundane fact-check to a more wide-ranging set of questions – many inquiries do lead to further investigation and audit work.

Figure 1: Tax inquiries are on the increase

In the last three to five years - has the number of tax inquiries your organisation faces from regulators, changed?



Over the next three to five years - how do you expect the number of tax inquiries your organisation will face from regulators will change?

Why are tax inquiries on the increase? As Figure 2 shows, many businesses believe one part of the explanation for the rise is the growing technological sophistication of tax authorities. Data analytics tools, for example, enable tax authorities to identify potential outlier cases in carefully selected cohorts of businesses. Automation tools enable authorities to work through company filings and returns without tying up resources, enabling more exacting examinations of each business's declarations. Such tools can even be used to automate the launch of an inquiry.

The growing maturity of such technology supports the view of businesses expecting to see further increases in inquiry numbers in years to come. Even tax authorities lacking traditional resources many be able to leverage automation tools and other technologies in order to step up their levels of activity. And where authorities are also investing in new hires – the US’s Inland Revenue Service and UK’s HM Revenue & Customs, for example, have both substantially expanded their workforce – the increase may be even more significant.

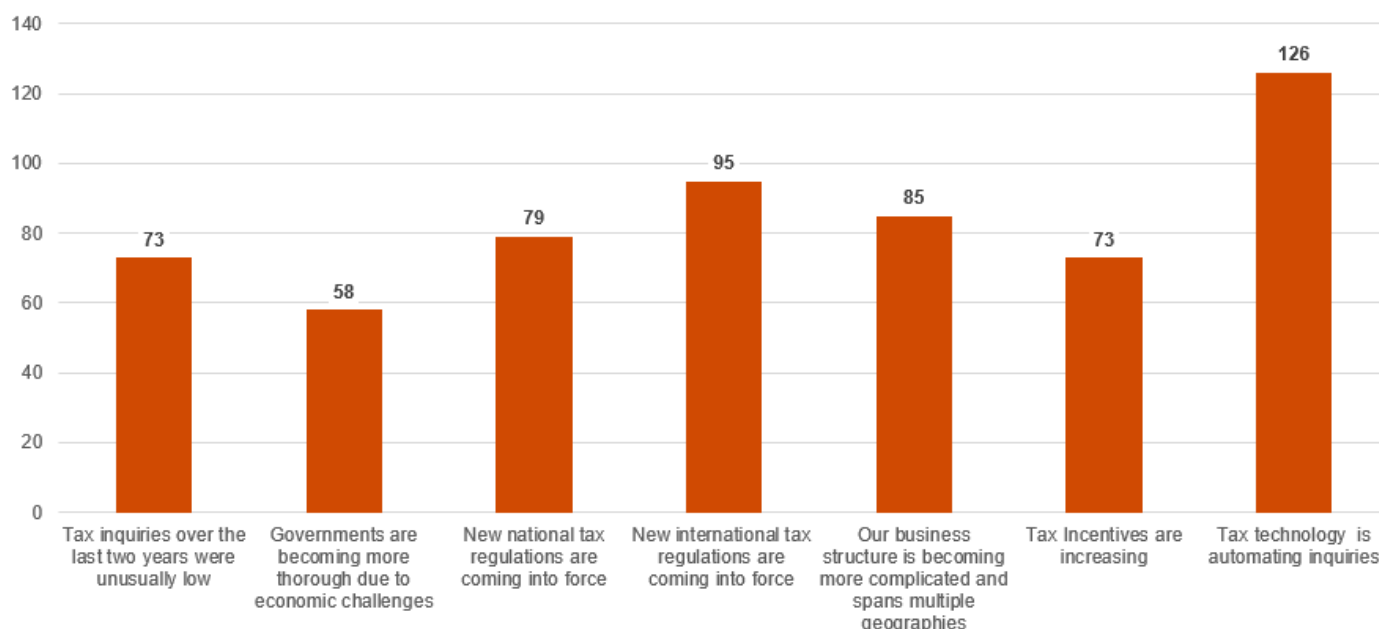
Moreover, the pressure on tax authorities to launch more inquiries looks set to increase. Many businesses in this research point out that in an era of slower economic growth and pressing public finance challenges in multiple countries, governments are looking to tax authorities to bring in more revenues. Politicians expect regulators to take a much tougher line.

A related factor is the increase in tax regulation – 29% of businesses in this research say they think the growing number of tax inquiries they face relates to additional tax regulation, either at a national or international level. As tax authorities look to enforce new regulation, often prompted by the desire to increase the tax take or to close down perceived loopholes and avoidance opportunities, inquiries are surging.

In fact, the interplay between national and international regulation may be a significant factor driving up inquiries. Individual countries concerned to maintain – or even grow – their share of corporate tax receipts will naturally be concerned about the prospect of revenues being redirected to other jurisdictions under international tax agreements and regulation. Their propensity to challenge businesses in this regard will therefore be heightened.

Figure 2: Why tax inquiries are increasing

What is the main reason you expect the number of tax inquiries to increase?



The bottom line is that this worldwide increase in tax inquiries seems unlikely to dissipate any time soon – those businesses anticipating further increases will almost certainly be proved right. With tax authorities under pressure to secure revenues for their governments – and technology available to help them do so – tax functions can expect their workloads to continue to grow.

Indeed, many businesses report an increase in speculative inquiries from tax authorities. Rather than asking specific questions, authorities are asking businesses to review their positions to confirm the stance they have taken. Such inquiries put businesses in a difficult position, putting the onus on them to review their returns – and to decide whether their initial view is likely to prompt further investigation.

Against this backdrop, many corporates will need to commit additional resources to hard-pressed tax functions. And almost all the businesses taking part in this research expect to turn to external support to deal with most or all of the tax inquiries they receive in future.



Thank you



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