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In this installment of Tax Pulse, Santiago discusses the tax leadership turnover that will occur when the last baby boomers remaining in tax leadership positions retire.

According to the U.S. Census Bureau,[1] by 2030, all baby boomers will have reached the traditional retirement age of 65. Not everyone will wait that long to leave the workforce. In tax, these senior workers often hold higher-level management positions, leaving our profession faced with a crisis. Simply said, we are about to experience the largest tax leadership turnover in our nation's history.

Statistics compiled by TaxTalent — a tax career development community and curator of the world's most extensive database of corporate in-house tax professionals — indicate that this exodus will soon result in a sizable shortfall of tax professionals across the board, adding to an already highly competitive tax hiring market.

The questions that have kept us up at night pertain to the size of the cliff we will soon encounter — and how quickly we would fall off it. How much time is left, and what can you do to minimize the effects? Let's start by taking a deeper look at the numbers and some startling statistics.

Baby Boomers in Tax Leadership

Managing a modern tax function is stressful. Accelerated by the negative pressures of statutory tax reform and regulatory requirements, de-consolidation, and the potential splits of the major consulting firms — not to mention the challenges of implementing new technologies and working under financial constraints — many boomer-era tax leaders will choose retirement over managing these stressors.

As depicted in Table 1, in 2019, when we first sounded the alarm about this upcoming wave of baby boomer retirements, 64 percent of heads of tax were 55 or older, as were 52 percent of seconds in command.

When we ran the numbers again in October 2021, we began to get nervous about our probable timeline. With input from 1,484 corporate in-house tax departments, the 2021 study revealed that 20 percent of U.S. heads of tax retired between 2019 and the end of 2021. What's more, 25 percent of the No. 2s (and the likely incumbents) also left the workforce.

Table 1. Baby Boomers in No. 1 and No. 2 Roles, 2019-2022

	2019	2021	2022
Heads of Tax Still in the Workforce	64%	49%	47%
No. 2s Still in the Workforce	52%	41%	39%

Currently, almost half (47 percent) of heads of tax are age 58 or older, and 39 percent of tax professionals in No. 2 positions — those presumably in line to step into lead roles — are also baby boomers.

The Ticking Time Bomb

To get a clear picture and understand the specific age range of those baby boomers still working in tax, we dug even deeper into our October 2022 study, as seen in Table 2.

[1] America Counts Staff, "2020 Census Will Help Policymakers Prepare for the Incoming Wave of Aging Boomers," U.S. Census Bureau, Dec. 10, 2019.

Table 2. Tax Talent Demographics Breakdown, Oct. 2022

Generation	All Roles %	Individuals Surveyed
Boomers	35%	6,373
Gen Xers	46%	8,306
Millennials	19%	3,404
Gen Zers	0%	27
Total surveyed		**18,110**

What we discovered was distressing: Of the 3,276 individuals age 58 or older surveyed, 69 percent are 61 or older. In other words, we believe that *more than two-thirds of all boomer-era heads of tax and No. 2s reporting to them will retire from full-time work in the next four years.*

While we knew this metaphorical cliff was coming, we couldn't previously foresee when or exactly how bad it would be. At the leadership level, four years is a conservative estimate since, because of the increasing pressures tax leaders face today, many are looking to retire before age 65. Not only are we going to be losing so much of our knowledge and experience, but this is also likely to occur at a vulnerable time regarding the current economic crisis.

As the available pool of qualified tax professionals grows even smaller, these widespread departures will continue to create salary inflation. Along with internal repercussions, this knowledge loss will affect vendors and auditors, during a time when we expect more aggressive audits across the board.

The Likely Repercussions

In general, older individuals working in the tax profession are conservative and loyal. They don't tend to job hop and most of those in leadership positions feel guilty about leaving during a catastrophe. However, with the worst of the pandemic mostly behind us and all boomers soon to be 60 or older, things are about to change.

We predict that this looming crisis will result in:

1. Supply and demand issues.
2. A shortage of Gen X leaders.
3. A need to quickly identify and retain the top millennial and Gen Z talent.

Supply and Demand Issues

Supply Shortfall

Already faced with a decreasing supply of tax talent in the United States, the industry's captive labor pool will be particularly challenging to replenish. Because of the uniqueness of the U.S. tax code, it is virtually impossible for a tax department to import resources from overseas.

As a result, most entry-level new hires qualified to take on these positions come from the quartet of major accounting firms — E&Y, Deloitte, PwC, and KPMG — firms that are now poised to split. Consequently, and despite the economic downturn, we do not foresee them doing any major layoffs. Rather, the firms will likely work hard to keep their employees and won't provide much relief to the shortfall.

Heightened Demand

At the same time, we anticipate that demand for U.S. tax professionals will increase despite the recession because of global regulatory demands, statutory tax pressures, and de-consolidations leading to the creation of more tax departments. Also, the looming splits of the Big Four firms are already elevating demand.

While not limited to tax, in a November 23, 2022, article, Bloomberg Tax reported that "EY is on track to hire around 220,000 people in the 12 months to July 2023, having achieved its highest growth in nearly two decades in the previous period. That's before a potential break-up of its auditing and consulting divisions takes effect, which could further ramp up a recruitment drive that reached about 160,000 in the 2022 financial year."[2]

Similarly, this October, PwC reported[3] that it had added 148,000 professionals during the 2022 financial year and will be hiring an additional 100,000 by 2026. While these are not exclusively tax professionals, KPMG and Deloitte are

[2] Irina Anghel and William Shaw, "EY to Hire About 220,000 as Big Four Shrug Off Economic Turmoil," Bloomberg Tax, Nov. 23, 2022.

[3] "PWC Announces Record Global Revenues of US$50 Billion," PwC.com (Oct. 4, 2022).

expected to follow suit and further elevate demand.

Shortage of Gen X Talent

If that weren't enough, tax is facing a notable shortage of highly skilled Gen X talent. To better explain this predicament, let's start with a look at our population demographics. In today's workplace, we have:

- Baby Boomers (born 1946-1964) — 58 to 76 years old;
- Generation X (born 1965-1980) — 42 to 57 years old;
- Millennials (born 1981-1996) — 26 to 41 years old; and
- Generation Z (born 1997-2012) — age 25 or younger.

When the members of Gen X were first joining the workforce in the 1990s, the collapse of Arthur Andersen, the Enron scandal, and the bursting of the dot-com bubble discouraged many from pursuing a career in tax. Also, a key presidential candidate's flat tax proposal compounded this disinterest.

As such, there is simply not enough seasoned Gen X talent available to fill all the tax leadership positions that will soon be vacated by the baby boomers. To envision this deficit, imagine our demographic statistics in the shape of an hourglass. The top portion represents the baby boomers and at the bottom are the millennials and the members of Gen Z. The narrow middle is Gen X.

Many Gen X tax professionals are more than ready to take the helm and will make excellent No. 1s. However, the circumstances they're about to inherit will be more challenging than ever. What's more, held back by the large supply of boomers before them, another pool of Gen Xers lack the requisite experience and, in many cases, the necessary breadth of experience. If they even want to take on such challenging positions, these deficits could make it difficult for them to catch up and step into leadership roles.

Truthfully, many will finally get their chance to lead, only to discover they're unprepared for the task. Before taking the helm, potential Gen X leaders must quickly develop soft skills, such as team building, interpersonal relatability, and emotional intelligence, that will be necessary in order to successfully manage their teams.

The challenges don't stop there. The inevitable promotion of Gen X professionals into No. 1 positions, coupled with the fact that there simply aren't enough of them, means millennials will find themselves promoted into No. 2 roles. Out of necessity, it's quite possible that we will also promote many millennials into No. 1 roles *a full decade* before their Gen X predecessors were ever offered such opportunities.

Need for Identification and Retention of Top Millennial and Gen Z Talent

While some will soon have as much as 20 years of experience in the field, most millennials and all Gen Z professionals have not had sufficient time to develop adequate technical tax experience, let alone critical soft skills and management strengths.

As the baby boomers retire, we predict that identifying the elite performers (roughly the top 5 percent) of millennials and Gen Z will quickly become a critical task. Those unwilling to work more than 40 hours a week will not qualify. Similarly, only a small percentage of millennial and Gen Z tax professionals will be inclined to spend extensive time traveling to and participating in the board meetings that are required for tax leaders to succeed, reducing the eligible talent pool even more.

While there is a sizable supply of millennial workers overall and a growing amount of Gen Z talent entering the field, the tax profession's future success depends in part on identifying those prepared to make the necessary sacrifices and take on key leadership roles at an early age. If that's not enough, retaining these driven performers may prove even more difficult, as most companies will be on the hunt and attempting to poach them.

Compensation will understandably become a major factor in these situations. Tax leaders may be required to make a case with their HR departments to justify paying a millennial or Gen Zer more than someone with more years under their belt. When these situations arise, it will be important to justify how the burgeoning leader's talent, aptitude, and potential contribution to the company ultimately exceed that of their more seasoned colleagues.

All these factors could come as a shock to unprepared, newly minted Gen X and millennial leaders new to the pressures of the No. 1 role. While some may accept the promotion only to step down soon thereafter, these same burdens could lead others to consider a late-life career change or even early retirement.

Another trend we are clearly seeing is a lowering of expectations in terms of the duration of full-time employment. Gen X is largely targeting retirement between ages 58-62. Millennials want to retire in their mid-50s and have embraced the FIRE (financial independence, retire early) model, which prioritizes saving and investing most of one's earned income to retire as quickly as possible.

Each generation seems to intend to retire earlier than the last, and that's partially because of the tremendous amount of stress those in these roles have been put under. Although we can still tap into the talents of those willing to participate via various contract staffing models, unfortunately this will in no way alleviate the lack of full-time tax leadership.

Looking Forward

While there's a lot coming down the pipe, there's still time to plan proactively. The impending departure of the baby boomer generation is inevitable, but how we react to this inevitable trend is within our control. To progressively and economically navigate the changes ahead, the tax profession must embrace new mind-sets and employment models, which we will discuss in detail in our next article. ■