A look inside tax departments in Latin America and how they are evolving

Summary report:
Latin America tax department benchmarking

KPMG International

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As a seasoned tax leader, you make key decisions every day to evolve your tax department and keep pace with unprecedented pressures, disruptive technological advancements, heightened compliance obligations and more — all while seeking to demonstrate value within your organization and beyond.

For tax executives of multinational organizations, benchmarking against comparable tax departments can be a powerful tool for reflecting on your current position and planning how to prepare your department for the future. To help, KPMG International conducts an ongoing survey of multinational tax departments. While the number of participants continues to grow, the resulting database is already believed to be the most robust of its kind on a global scale, with input from some 400 multinational tax leaders in more than 50 countries.

In this special report on tax departments within companies based in Latin America, we zero in on data from over 50 tax leaders of organizations headquartered in 12 Latin American countries. The data offers insights into tax departments in the region and how they are evolving in their structure, governance, priorities and performance measures, through the use of technology and more.

What do the latest results tell us? Overall, Latin America's dynamic tax environment seems to be shaping the evolution of tax functions in the region in some distinct ways, compared to tax functions in other parts of the world. For example:

— Latin American tax authorities are frontrunners in digitalizing their tax systems. To adapt and comply, companies in the region have had to move more quickly on tax technology than those in other regions. As a result, tax functions in the region appear to be more advanced than their global peers, not only in their appetite for and use of tax technology, but also in the ability of their ERP systems to provide tax data.

— Compliance imperatives and relatively high tax complexity in the region seem to have helped elevate the profile of Latin American tax functions, compared to their global peers. Tax functions in Latin American are more likely to be independent, rather than part of the finance function, and companies in the region are much more likely to have a documented tax strategy that covers tax risk. Tax functions in Latin America also appear to be more involved in setting overall business strategy than tax functions in other regions, and this involvement has been increasing.

— While tax risk is a high concern, Latin American tax functions seem to put somewhat less emphasis on managing it. In contrast to the global norm, most companies based in Latin America give less priority to minimizing tax risk than other areas, like tax reputation, group tax rate and tax accounting. Further, many companies do not require tax involvement in high-risk tax areas like mergers and acquisitions, new permanent establishments and cross-border personnel secondments.

— Finally, when it comes to tax transparency, companies based in Latin America generally seem less open about their tax affairs than companies based elsewhere. Only a handful of respondent companies make their tax information public as part of their environmental, social and governance disclosures, and no respondent plans to increase the extent of their disclosures.

This report presents a brief overview of selected key findings from the survey data through to October 2019, and offers some important takeaways for tax leaders operating in the region.

Contents

About the survey

- KPMG International's Global Tax Benchmarking Survey charts the evolution of leading tax departments and identifies operational benchmarks for high-performing tax teams.
- The selected findings in this summary report are based on a survey of 50 leaders in charge of tax policy and operations of companies in all major sectors, with participants from 12 countries in Latin America.
- Almost two-thirds of respondent organizations are public companies. Over one-quarter of them have more than US$5 billion in annual revenue or turnover. All respondent organizations have more than 1,000 employees globally, and one-quarter have more than 10,000 employees. Almost 40 percent have branches, subsidiaries or other permanent establishments in more than 10 countries.
- Tax leaders can still participate in the survey. By doing so, you will have the opportunity to receive personalized insights into how your tax department compares across key areas. Please visit home.kpmg/taxbenchmarking or email tax@kpmg.com to learn more.

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

A dynamic tax environment

The tax teams of foreign-owned companies in Latin American countries are confronting massive tax changes like never before. As geopolitical developments like US tax reform and the Organisation for Economic Co-operation and Development's project to curb base erosion and profit shifting (BEPS) alter the landscape for international tax arrangements, many countries in the region are also making major reforms to their domestic tax rules.

Countries in the region have actively contributed to the development of the OECD's Action Plan on BEPS, and they are currently bringing many of the final recommendations into their local laws and bilateral arrangements. For example:

— **Argentina, Chile, Colombia, Panama, Peru, Mexico and Uruguay** are among the Latin American countries that have signed the Multilateral Instrument (MLI), the OECD-developed mechanism for implementing anti-treaty abuse measures by making synchronized changes to the treaty networks of participating countries. **Brazil** has not signed the MLI, but it is taking steps to bring its relatively small treaty network in line with the MLI's concepts.

— **Mexico** has been an early adopter of the BEPS recommendations, with rules in place addressing thin capitalization, back-to-back financing arrangements and intragroup royalties and dividends. Mexico has also enacted controlled foreign company and tax haven rules, defining tax havens as jurisdictions that impose tax on corporate income at 75 percent or less of Mexico's 30 percent corporate rate.

— **Argentina** introduced an important tax reform in January 2018, proposing to reduce the corporate income tax rate from 35 percent to 30 percent, and then to 25 percent, and to introduce withholding tax on dividends. Argentina is also incorporating a definition of business substance in its local law that requires Argentinian taxpayers to prove the business substance of any foreign related parties they operate with.

— **Chile** plans to broaden its permanent establishment concept, sharpen its focus on transfer pricing, require country-by-country tax reports, and compel large corporate taxpayers to file an annual affidavit setting out the "global tax characterization" of their operations. Other significant Chilean proposals include a move to a single integrated system and simplified tax registries that would limit overall taxation to up to 35 percent, regardless of the residence of the direct foreign shareholder (versus 44.45 percent withholding tax).

On the domestic side, major reforms are being introduced to tighten tax rules and attract more foreign investment.

- **Brazil** is approaching domestic tax reform on three fronts: reforming its indirect tax system, reforming its income tax system, and creating a new tax to reduce payroll costs and boost employment.
- A major tax modernization reform is working its way through **Chile's** legislative process that would, among other things, reinstate full imputation credits for resident individual and non-treaty based foreign investors, impose a new tax on digital services and platforms, and introduce a series of BEPS-related international tax changes.
- **Mexico** introduced a package of income tax and VAT reductions for foreign investors to promote development of the country's northern border region. These incentives would reduce income tax on qualifying earnings to 20 percent (from 30 percent) and VAT in the border area to an effective rate of 8 percent (from 16 percent). However, these incentives are set to expire at the end of 2020.
- **Argentina** is expanding its tax incentive regime for domestic entities and professionals conducting software-related activities. The incentive is being broadened to include activities related to robotics, medical research, and research and development (R&D). The new law provides a 15 percent income tax rate (compared to the standard rates of 30 percent for 2019 and 25 percent for 2020 and later). The rules make it possible to credit foreign income taxes withheld from Argentinian source income derived from the eligible activities.
- **Peru** enacted a tax reform package that included a general anti-avoidance rule that would make legal representatives, including members of the board of directors jointly and severally liable for aggressive tax planning structures. Peru also introduced a thin capitalization rule and new beneficial ownership reporting rules.

As these complex legislative changes are put in place, tax authorities in the region's largest countries are investing heavily in technology. This is strengthening their ability to gather more tax information, check the quality of this data and gain more insights into the tax and financial positions of taxpayers. As a result, companies are being required to provide digital tax filings and documentation in a rising number of Latin American tax jurisdictions.

For example, Latin American countries like **Chile** have pioneered the introduction of electronic invoicing and the online filing of VAT and GST returns, and other countries in the region, such as **Peru** and **Uruguay**, have followed suit. More recently, in some countries, like **Brazil** and **Colombia**, the e-invoicing system requires a digital stamp from the tax authority before the invoices can be submitted to the provider or customer, giving tax authorities real-time access to transaction information. **Mexico** is taking digitalization even further, requiring not only invoices or tax returns but also accounting records and other tax disclosures to be filed in standard electronic format (i.e. XML).

As tax systems in Latin America shift into the digital domain, operational risks from the new compliance requirements have risen sharply for international companies in the region. Responding to tax digitalization is becoming a high priority for multinationals operating in the region, forcing tax departments and the entire finance function to adapt.

As a result, advancing technology is dramatically improving the quality and visibility of tax data, thereby enhancing compliance for many organizations. Technological change is also opening opportunities for greater centralization for many Latin American tax functions, allowing them to improve their tax data's consistency, quality and efficiency.

As many tax leaders in the region work to evolve their systems and processes to keep pace with changing tax rules and complex compliance demands, their investments in technology, processes and people are laying a strong foundation for success in the years to come.

The survey results discussed in this report show how Latin American tax departments are progressing in the current tax environment and highlight their priorities for future investment.

Tax departments today

KPMG International research has shown that the most effective, highly valued tax departments are those that manage tax risk and compliance, while identifying opportunities for adding value to the business. Often, this is through the expansion of core tax management skills and increased and proactive collaboration with all parts of the business in advancing the overall objectives of the organization.

For many organizations, having a tax department structure that centralizes management and resources can help to achieve these ends. Centralization can help ensure accountabilities are clear, the right mix of dedicated and shared resources are available, and processes and technologies are leveraged to improve consistency, quality and efficiency.

Survey results show that many companies headquartered in Latin America are moving toward greater centralization of tax resources and activities, especially in the area of transfer pricing. However, these companies may have opportunities to further centralize accountabilities and activities — for example, through greater use of shared service centers or other centralized sourcing models.

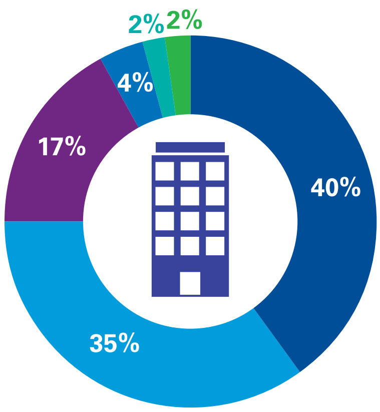
> **"Businesses in Latin America continue to face sweeping change and ongoing transformation. National tax reforms, regulatory shifts, new governments and policies and technological disruption are all unfolding rapidly across the region, bringing heightened pressures to businesses and their tax departments. Tax transformation in the region also relies heavily on how quickly tax regulations adapt to the disruptive forces taking place. Adapting quickly is crucial to a successful transformation journey for tax departments in both the LATAM region and across the world."**
>
> **Christian Athanasoulas**
> **Latin America Regional Managing Principal, Americas Tax***
> **KPMG in the US**
>
> **All professional services are provided by the registered and licensed KPMG member firms of KPMG International.*

Reporting lines

For Latin America-based companies, 40 percent of tax functions are independent departments, directly under executive management, while 35 percent fall within the finance function. This level of tax function independence is greater than the global average, where only 30 percent are separate functions that report directly to senior management and over half remain part of the finance function.

In line with global averages, over two-thirds of tax leaders in respondent companies report to the CFO or head of finance (other than CFO), while only 8 percent report to the CEO directly.

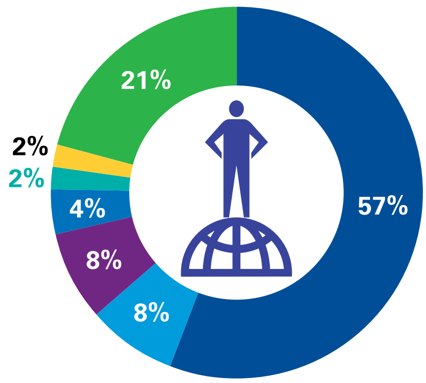
In your organization, which department does your central tax department fall within?



- As an independent department directly under executive management (e.g. directly reporting to CFO)
- As part of finance
- As part of accounting
- As part of treasury
- As part of legal
- Other

Source: 2019 Tax Benchmarking Survey, KPMG International.

Who does the tax leader report to?



- Chief Financial Officer
- Chief Executive Officer
- Head of Finance (other than CFO)
- General Counsel
- Head of Treasury
- Chief Operations Officer
- Other

Note: Totals might not add up to 100% due to rounding.

Source: 2019 Tax Benchmarking Survey, KPMG International.

Staffing and sourcing

On average, tax functions of respondent organizations have 23 full-time employees (FTE) at their tax department headquarters location, and an average of 25 FTEs at other locations.

Four of five tax departments are responsible for domestic reporting, while almost three-quarters have responsibility for global reporting. For the majority of respondents, the tax department has primary responsibility for:

— tax department administration

— accounting for income tax

— tax returns/compliance

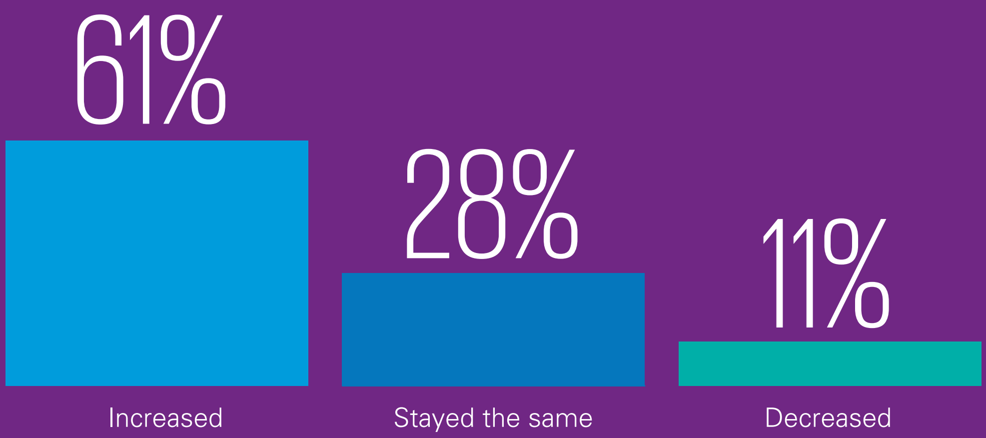
— transaction taxes (value added tax, indirect tax, etc.)

— day-to-day processing of intercompany transactions.

A majority of tax departments do not use a shared service center (SSC) to handle any of their activities. Of those that do, 61 percent have increased their SSC use, while only a few have decreased it. The processes most commonly delegated to SSCs are tax return preparation, accountancy/general ledger, fiscal declaration processes and indirect taxes. Notably, the use of SCCs is up in the region compared to our last report in 2017, where just 43 percent of respondents reported using a Shared Service Center.

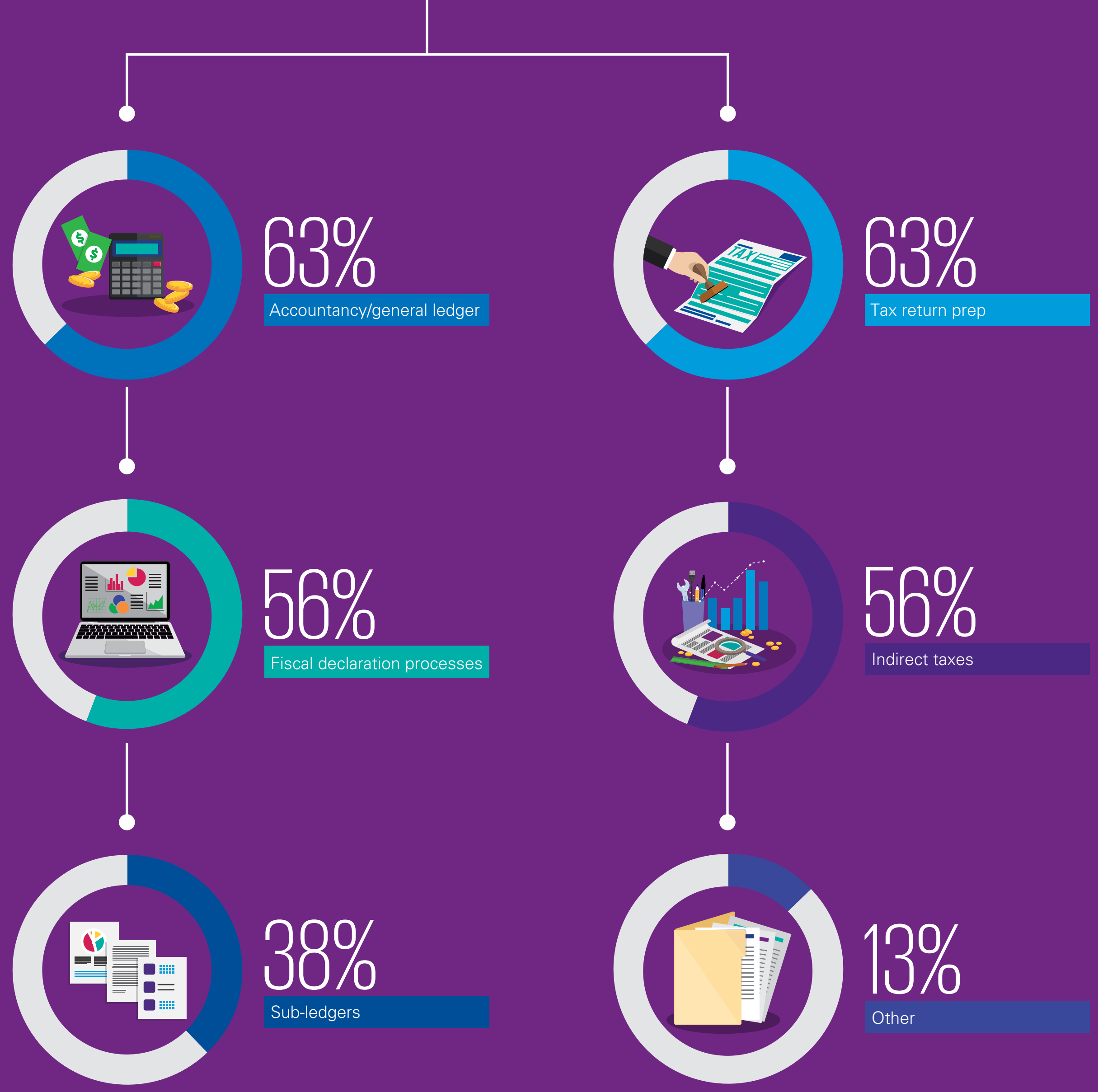
Does your tax department utilize a Shared Service Center (SSC) to handle any part of its function?

If so, would you say that utilization of the SSC has increased, decreased or stayed the same in the past 2 years?



Source: 2019 Tax Benchmarking Survey, KPMG International.

What processes are delegated to the SSC?



Source: 2019 Tax Benchmarking Survey, KPMG International.

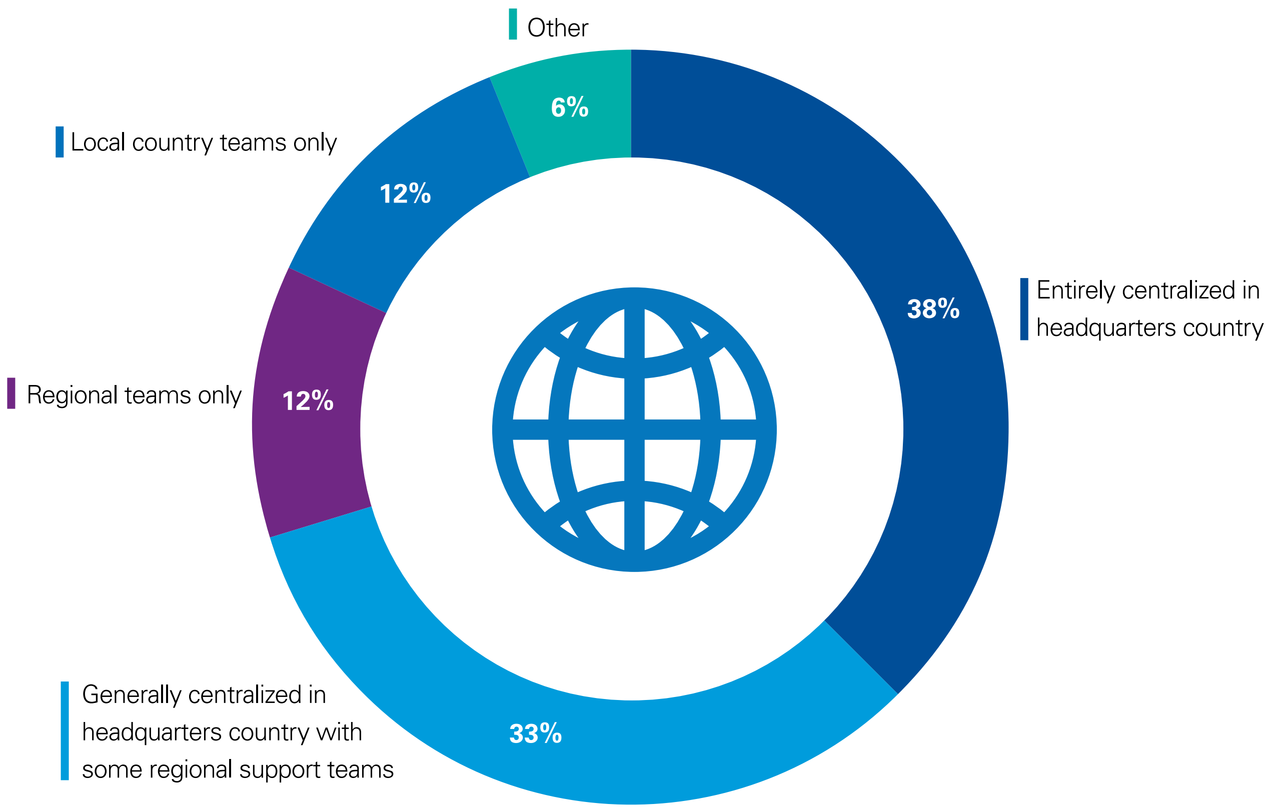
Structure of the transfer pricing function

Due to increased tax authority interest and activity in recent years, transfer pricing risk has been rising. This area is expected to put even more demands on tax teams in the coming years now that many countries have implemented the transfer pricing recommendations arising from the OECD's BEPS project. With tax authorities in the region now engaged in automatic exchange of tax information, centralizing transfer pricing activities may facilitate better compliance globally with country-by-country reporting and master file/local file documentation requirements.

In this light, it is somewhat encouraging to see that the transfer pricing functions of most respondents surveyed are either entirely or generally centralized in the headquarters country, although progress seems to lag behind other jurisdictions. Among respondents in Latin America, almost one-quarter of transfer pricing functions remain local or regional, which is twice the global average.

Over three-quarters of central tax departments are responsible for transfer pricing documentation for associated domestic entities, in line with the global average, but only 37 percent are responsible for associated foreign entities, compared to 51 percent globally. These results suggest many tax departments in Latin America may have scope to improve the accuracy and efficiency of their transfer pricing functions by centralizing more of these activities in the headquarters country.

What is the operating model/organizational structure of your transfer pricing function?

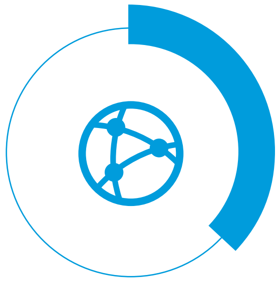


Note: Totals might not add up to 100% due to rounding.
Source: 2019 Tax Benchmarking Survey, KPMG International.

Is your central tax department responsible for transfer pricing documentation for associated entities?

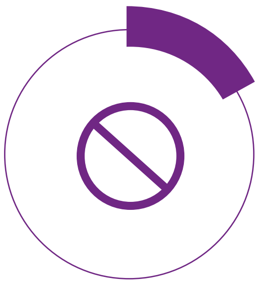
77%

Yes, for domestic entities



37%

Yes, for foreign entities



17%

No, for neither domestic nor foreign entities

Source: 2019 Tax Benchmarking Survey, KPMG International.

Key takeaways:

— Among Latin America-based companies, most tax functions still fall within the finance function, although a significant proportion are independent. Only 8 percent of heads of tax report to the CEO directly.

— Many companies with headquarters in Latin America are moving toward greater centralization of tax resources and activities, especially in the area of transfer pricing.

— Companies may have opportunities to further centralize accountabilities and activities — for example, through greater use of shared service centers or other centralized sourcing models.

— Compared to global averages, the transfer pricing functions of many respondents in Latin America surveyed have not progressed as far in centralizing their transfer pricing activities in their headquarters country. This could create challenges in complying with the new transfer pricing requirements developed under the OECD's Action Plan on BEPS.

Governance, risk management and responsible tax

The amounts of tax that global companies pay in total and in various jurisdictions have captured the spotlight in recent years. Tax leaders are being asked to explain their companies' tax affairs to senior management, boards and other stakeholders. Tax authorities are looking at the quality of companies' tax governance and strategies as they evaluate tax compliance risk. Investors, the media and the public are calling on companies to be more transparent and show that their tax policies and practices align with their organizational principles and values. At the same time, tax leaders are challenged to spot strategic opportunities and partner with the business so that taxes are managed effectively and the data collected for reporting and compliance obligations can, in turn, be used to offer valuable insights for the business.

Tax approaches and risk management

Survey results show that many companies operating in Latin America have recognized and responded to the need to demonstrate strong frameworks for tax governance, risk management and tax responsibility. However, most of these frameworks could be even stronger by mandating board-level involvement in tax governance.

Over 70 percent of respondent companies have a documented tax strategy or overarching tax policy document covering tax risks, significantly more than the global average of 51 percent.

However, companies in Latin America seem less inclined than their global peers to revisit and renew their tax strategies. Globally, 55 percent of respondents review and update their tax strategies each year, but no respondents from Latin American do this annually. Forty percent of respondents in Latin America review and update their strategy every other year, and 60 percent only review it periodically on an ad hoc basis.

Respondents say the most important objective within their tax strategy's scope is tax compliance, followed by tax reputation, group tax rate and tax accounting. These priorities generally align with global averages, although the strategies of respondents in Latin America give less priority to minimizing tax risk.

Like their global peers, the majority of respondent companies in Latin America have a tax code of conduct to frame their risk tolerance and tax decisions, but when it comes to tax transparency, they are much less likely to make this information public. We see a similar trend around the transparency of tax information shared more generally in the region. Here, 22 percent of respondents in Latin America report that they make at least some tax information publicly available, which is significantly less to the 42 percent that reported doing so globally.

While nearly one-third of companies globally plan to increase public disclosures about their tax information in the future, no respondents from Latin America reported an intention to do so.

Board and business involvement in tax strategy

In 44 percent of respondent companies in Latin America, a board member (or board-level individual) has been assigned responsibility or accountability for tax — a result well below the global average of 59 percent. However, this number is slightly up from when we last reported on it in 2017, when only 39 percent of respondents reported board-level oversight of the tax function.

Within tax strategy or overarching government policy documents, other parts of the business are instructed to involve the tax department most commonly in the high-profile risk areas of transfer pricing, changes in the operating business and financing projects. However, fewer tax strategy documents instruct other departments to seek tax department involvement in some areas that could bear equivalent tax risk, such as contract negotiations, personnel secondments and product launches.

Globally, the top three tax risk areas requiring tax involvement include not only transfer pricing but also reorganizations/merger and acquisition (M&A) transactions (required for 78 percent of global respondents but only 50 percent of those in Latin America) and setting up foreign permanent establishments (69 percent globally versus 44 percent in Latin America).

For any of these matters, involving the tax department is usually treated as optional, although Latin American companies are less likely to leave this involvement to the business's discretion. Documented guidance requires (legally binding) involvement of the tax department in 44 percent of respondent companies in Latin America, compared to 30 percent globally.

> **"With the global trend toward increased transparency, there is a need for tax professionals to be exceptional communicators and brand ambassadors. Many tax leaders are conscious that they need to be able to articulate internally and externally the ways in which their departments embody the values of the organization and contribute positively to society, while also adding value to the business."**
>
> **Jane McCormick**
> **Global Head of Tax & Legal**
> **KPMG International**

Tax functions in Latin America appear to be more integrated in the overall business strategy than tax functions in other regions. Over three-quarters of Latin American respondents say their tax departments contribute to operational business planning/business strategy to some extent, and 22 percent are completely involved. Half of Latin American respondents say this involvement has increased in the past 2 years. Most tax functions globally are similarly involved to some extent and this involvement is increasing, but only 13 percent are completely involved.

Does a board member (or board level individual) take responsibility/accountability for tax?

Source: 2019 Tax Benchmarking Survey, KPMG International.

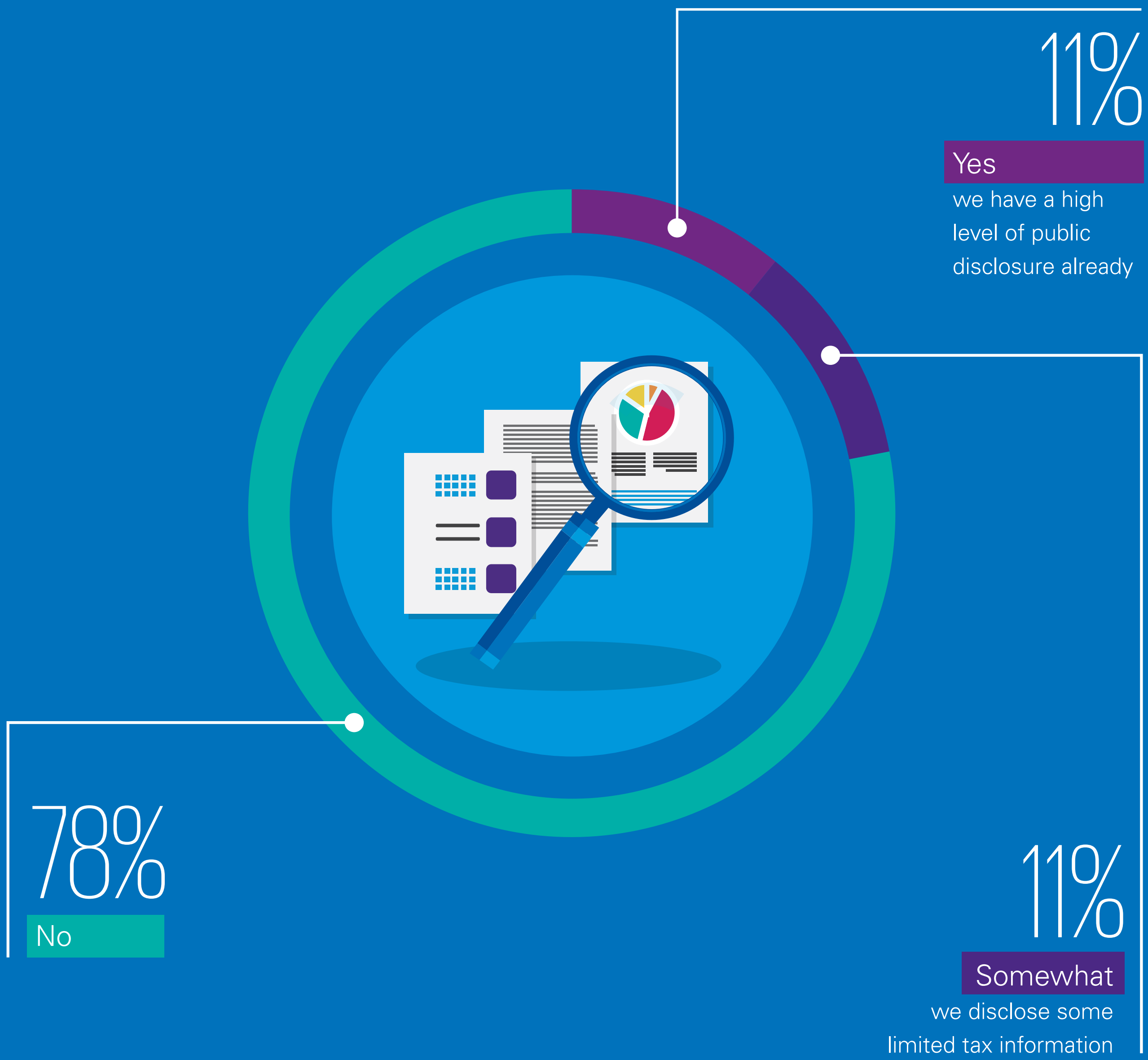
Do you have a tax code of conduct to frame your risk tolerance and tax decisions? If so, is it public or private?

39% Yes, we have a tax code of conduct for internal use

61% No, we do not have a formal tax code of conduct

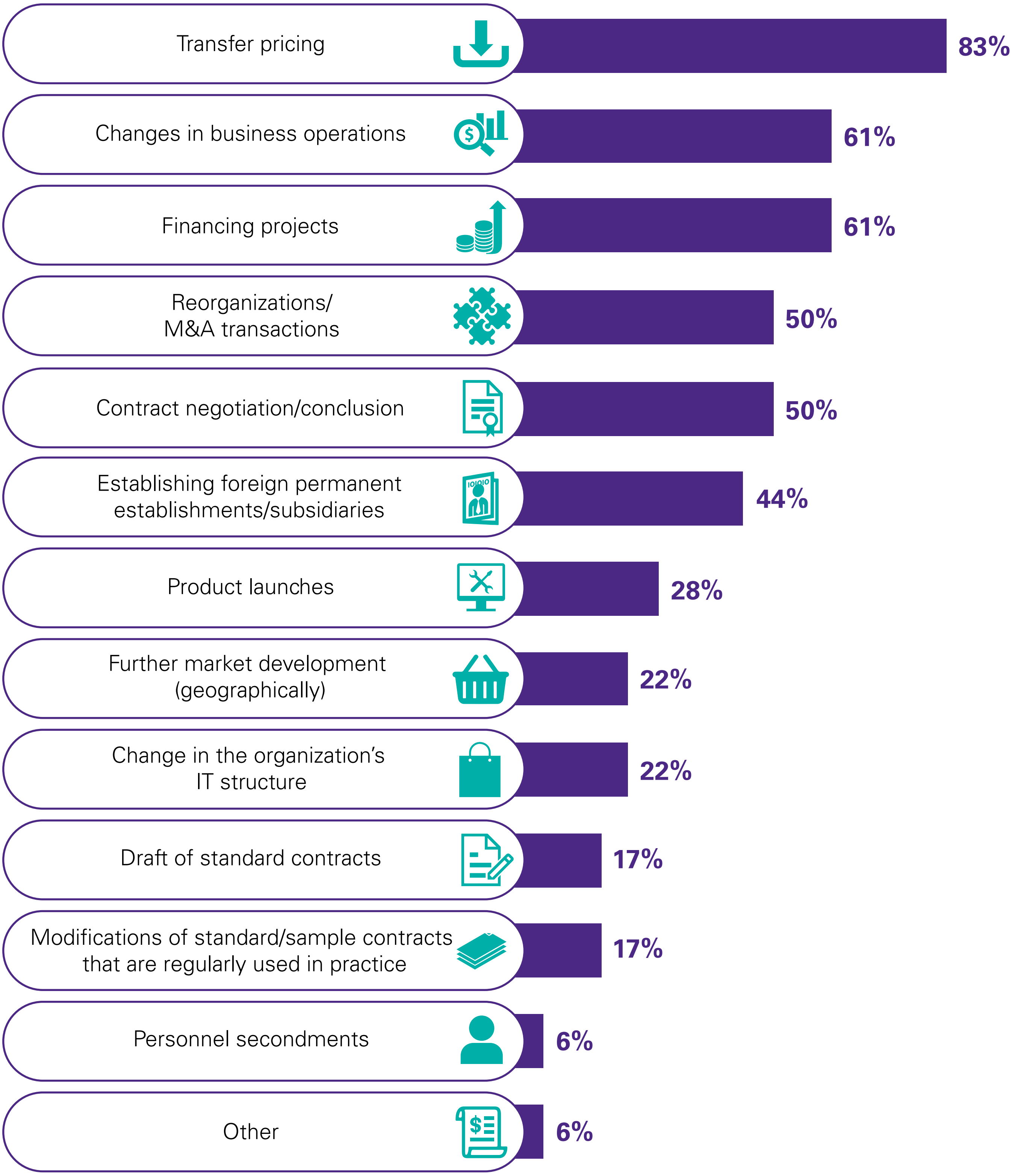
Source: 2019 Tax Benchmarking Survey, KPMG International.

Does your organization currently disclose your tax information publicly as part of your environmental, social and corporate governance (ESG) approach?



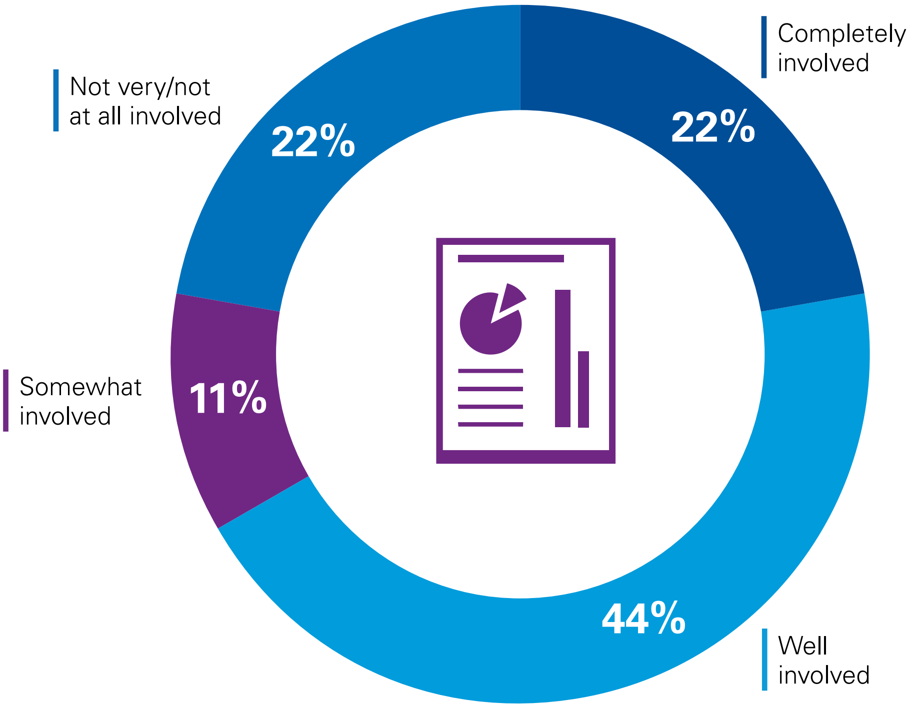
Source: 2019 Tax Benchmarking Survey, KPMG International.

In which of the following areas does the tax strategy or overarching governance policy document instruct other organization entities to involve the tax department?



Source: 2019 Tax Benchmarking Survey, KPMG International.

How involved is the tax department in overall operational business planning/business strategy for the organization?



Note: Totals might not add up to 100% due to rounding.

Source: 2019 Tax Benchmarking Survey, KPMG International.

Key takeaways:

- Many companies based in Latin America have recognized and responded to the need to demonstrate strong frameworks for tax governance and risk management, but more board level involvement could improve tax oversight.
- Seventy percent of respondents have some form of documented tax strategy, significantly more than the global average of 51 percent.
- For Latin American respondents, tax compliance is the most important objective within the tax strategy's scope, followed by tax reputation, group tax rate and tax accounting. These priorities are generally in step with global norms — except Latin American-based companies give less priority to minimizing tax risk than the global average.
- Other parts of the business are often instructed, but not formally required, to involve the tax department in specific high-profile risk areas — most commonly, transfer pricing, changes in the operating business and financing projects.
- Unlike companies in other regions, Latin America-based companies are less likely to call for tax involvement in other high-risk tax areas like M&As and setting up permanent establishments.
- When it comes to tax transparency, Latin American-based companies are much less likely to make their tax information public than their global peers. Only 11 percent of Latin American respondents disclose some limited tax information as part of their ESG efforts, and another 11 percent do so publicly.
- Tax functions in Latin America appear to be more involved in setting overall business strategy than tax functions elsewhere. Half of tax departments are well involved in operational business planning/business strategy, and this involvement has increased in the past 2 years for half of the respondents.

Measuring performance

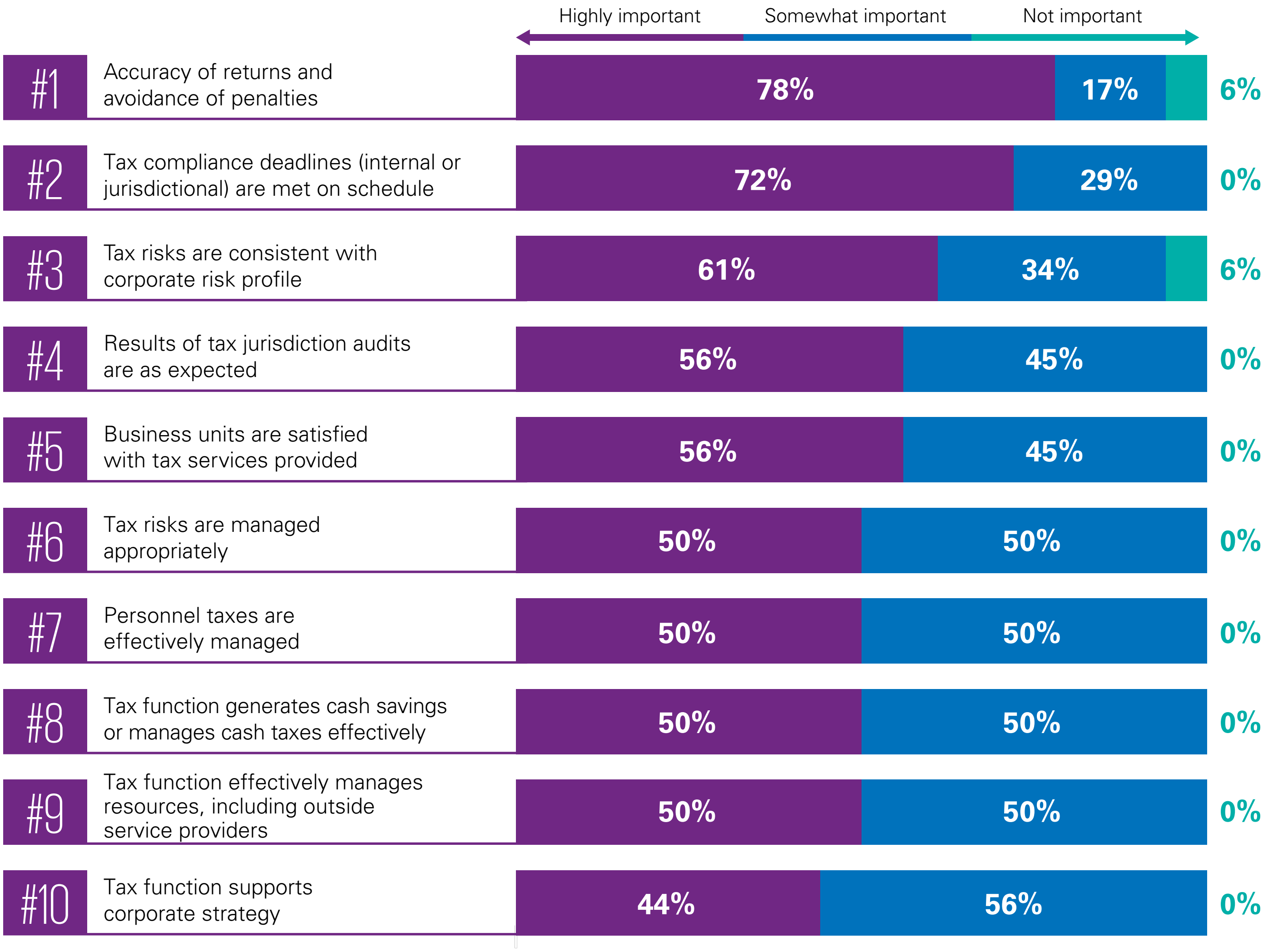
Measurement drives performance and informs leadership of the tax department's effectiveness. Clear, commonly understood performance measures are important for demonstrating the tax department's worth and quantifying the value it brings. Metrics can also be used to support the case for investment in new technologies and process efficiencies to derive more value from tax processes.

Unlike years ago, when an Effective Tax Rate was often seen by management teams as the key area of success for their tax departments, tax leaders of respondent companies say the five most important metrics used by management to measure tax function performance today are:

1. accuracy of returns and avoidance of penalties (78%)
2. tax compliance deadlines (internal and jurisdictional) are met on schedule (72%)
3. tax risks are consistent with corporate risk profile (61%)
4. results of tax jurisdiction audits are as expected (56%)
5. business units are satisfied with tax services provided (56%)

With four of the top five metrics focused on getting compliance and risk management right, these areas remain top priorities. Traditional tax department metrics related to cash savings and effective tax rates are given less priority but remain common. The relatively high ranking for business unit satisfaction, together with the rankings for adding value and supporting corporate strategy, suggest some attention is being paid to how tax functions are interacting with the business and contributing to strategic decision-making.

Respondents ranked how important the following performance metrics are to management (on average; in ranked order of importance):



Note: Totals might not add up to 100% due to rounding.
Source: 2019 Tax Benchmarking Survey, KPMG International.

Key takeaways:

— Clear, commonly understood performance measures are important for demonstrating the tax department's worth and quantifying the value it brings.

— Results from companies based in Latin America suggest compliance and risk management are considered as the most important measures of tax department performance. Interestingly, however, as we saw earlier, minimizing tax risk is given less weight than compliance concerns in the documented tax strategies of these companies.

— Some attention is being paid to measuring how tax functions interact with the business and add value, which is in step with the relatively higher proportion of Latin American tax functions that are involved in operational business planning and tax strategy.

Tax departments of the future

At the beginning of this report, we noted that an efficient and effective tax department is structured to ensure that accountabilities are clear, the right mix of dedicated and shared resources are available, and processes and technologies are leveraged to improve consistency, quality and efficiency. Are today's companies prepared to make the investments in people, processes and technology needed to create tax departments designed to meet the challenges of the future?

Survey results suggest that, like companies in other regions, the trend toward greater centralization and standardization will continue for Latin America-based companies. Increasing training and education for tax staff members is a top priority for investment, and the number of tax department FTEs is expected to increase for half of respondent companies. With the notable exceptions of country-by-country and transfer pricing software, however, companies may be missing out on opportunities to drive efficiencies by increasing their use of tax-related software.

Priorities for improvement

A strong majority of respondents say the trend concerning organization of tax departments is moving toward greater centralization. When asked what their top priorities are for process improvements in the next 5 years, Latin American respondents most commonly named process standardization, following by improving the connection between tax provision and compliance processes.

Staffing and sourcing

One-third of respondents in Latin America expect tax head counts to remain the same over the next 5 years, while over half of respondents expect their number of FTEs to increase — with almost one in five projecting their head counts will grow by more than 20 percent.

Over half of respondents plan to increase their use of centers of excellence for key functions such as transfer pricing and transactions, and the same portion of respondents expect to increase their use of finance SSCs during the next 5 years. Forty-four percent expect to make more use of co-source resources.

A minority of Latin America-based companies expect to increase their use of virtual work environments to source their global tax departments remotely or their use of offshore resources to take advantage of wage arbitrage. Relatively few companies plan to decrease their use of any of these sourcing options.

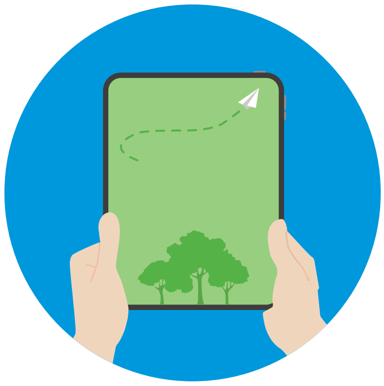
The most important process improvement areas to focus on over the next 5 years (in order of importance):

1
Standardize processes

2
Tightly connect provision and compliance processes

3
Consulting with business or operation units

4
Formalize risk management



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Paperless environment

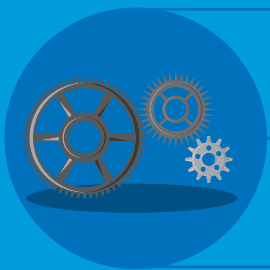
> **“Tax continues to make headlines and the unprecedented pace of change has forced businesses to rethink how they operate and invest in tax infrastructure. Today’s complex and uncertain times require different tools and skills to manage the business of tax, making it absolutely crucial that businesses take a step back to reassess their target operating model, and focus on new approaches to working, improved technology tools, adaptable capabilities, and flexible new ways of sourcing.”**
>
> **Sean Bloodwell**
> **Head of Global Compliance Management Services**
> **KPMG International**

What will your resource model look like in the next 5 years?

Total tax head count

57%	33%	10%
Increase	Stay the same	Decrease

Use of co-source resources from tax providers



54%	40%	6%
Increase	Stay the same	Decrease

Use of offshore resources to take advantage of wage arbitrage

20%	71%	8%
Increase	Stay the same	Decrease

Note: Totals might not add up to 100% due to rounding.
Source: 2019 Tax Benchmarking Survey, KPMG International.

Use of center of excellence for key functions

(e.g. transfer pricing, transactions)

Increase	Stay the same	Decrease
52%	44%	4%

Use of finance SSCs within your organization

Increase	Stay the same	Decrease
50%	43%	6%

Reliance on a global tax department resource model

(e.g. virtual work environment that permits use of resources in remote locations not motivated by wage arbitrage)

Increase	Stay the same	Decrease
44%	53%	2%

Note: Totals might not add up to 100% due to rounding.
Source: 2019 Tax Benchmarking Survey, KPMG International.

Tax technology

With Latin American tax authorities leading the world in digitalizing their tax systems, it's no surprise that companies in the region are responding and also leveraging the opportunities to drive efficiencies by increasing their use of tax-related software . In fact, this is more prevalent in the Latin American region than elsewhere in the world. For virtually all types of tax software identified in our survey, respondents in Latin America were more likely — often much more likely — to use these tools now or plan to acquire it in the near future. Tax leaders in the region also consistently said tax technology would be their number one priority for new investment if they were given additional budget.

Document management systems are currently the most commonly used tax software by respondent companies in Latin America. Thirteen percent of companies that now use it plan to change their current software, while 31 percent of other companies plan to acquire document management systems in the next 5 years.

Off-the-shelf provision systems, compliance software, and workflow tools are the next most commonly used software. However, there appears to be little enthusiasm to change tools or increase usage among current users. The majority of companies do not currently use tax software for tax audit support or global trade, which could present an opportunity for further efficiencies.

Two types of tax software that are expected to see significantly more use are software for country-by-country reporting and transfer pricing. Thirty-one percent of Latin America-based companies use software for country-by-country reporting now, and 42 percent plan to acquire it in the next 5 years. Similarly, one-quarter of companies now use transfer pricing software, and 38 percent plan to acquire a tool within 5 years.

Respondents in Latin America are much more likely than their global peers to be satisfied with their companies' ERP systems. Sixty percent say they are satisfied with their ERP systems' ability to provide necessary tax data. Less than one-quarter are not satisfied. This suggests companies in the region have already taken steps to upgrade their ERP systems as tax authorities have increased their requirements for providing electronic access to companies' tax and accounting data.

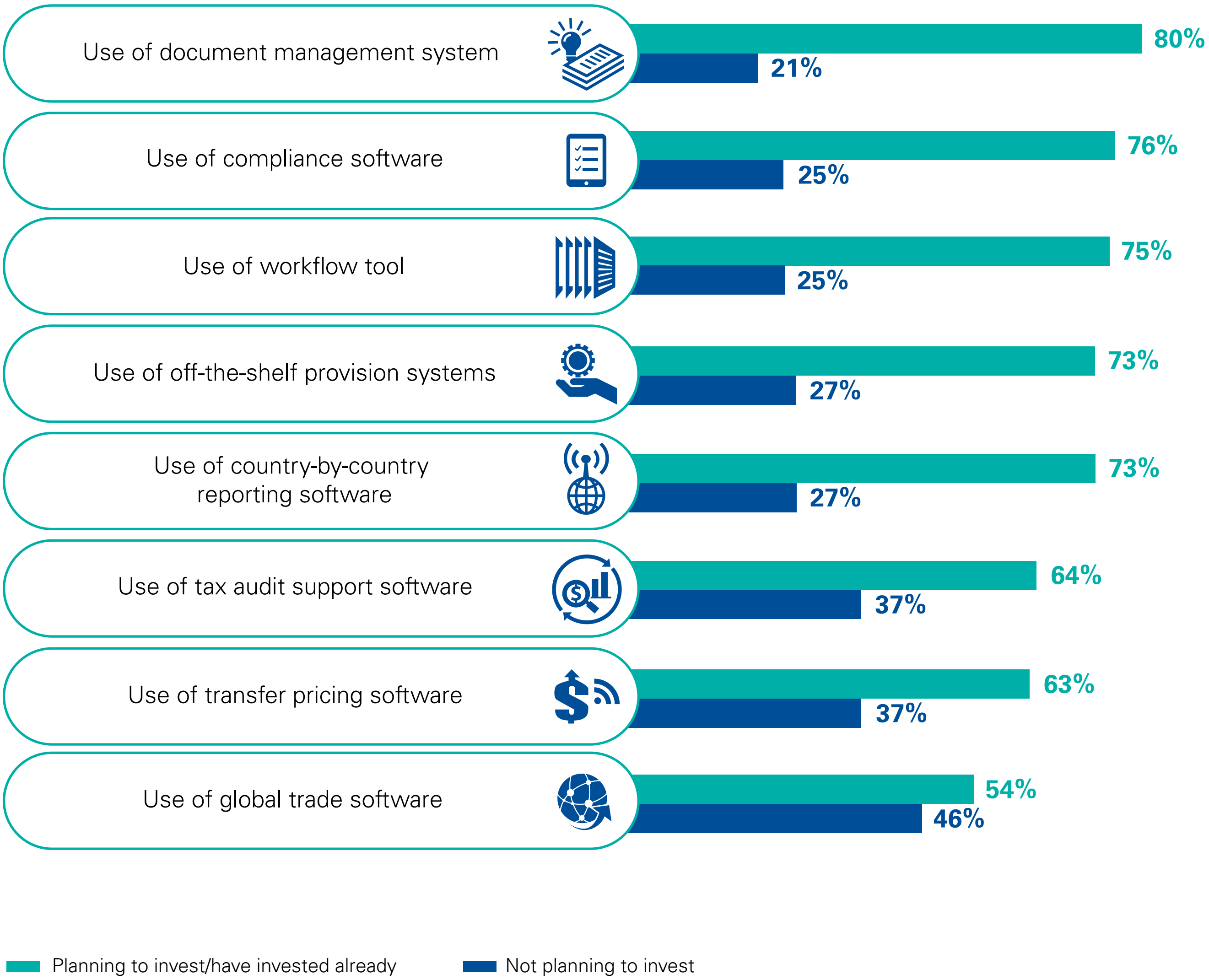
In the next 5 years, technology changes to systems that supply tax data are expected to increase in the following areas (in ranked order):

1. overall leverage of enterprise finance IT systems for tax purposes
2. use of consolidation system data for tax purposes; understanding of tax data needs by IT resources
3. investment in tax-specific technologies
4. use of tax data warehouse.

> **"As technology continues to automate various parts of the tax function, businesses operating in the region are becoming more proficient in applying advanced tools like data and analytics (D&A) and artificial intelligence to streamline processes, provide strong insights and add value to their organizations. It's not surprising to see that tax leaders working in Latin America, see process standardization, and the need to connect their compliance processes as top priority areas as the tax authorities are doing this already. Technology will, of course, be crucial to achieving both of these outcomes."**
>
> **Brad Brown**
> **Global Head of Tax Technology & Innovation**
> **KPMG International**

> **"Forward-thinking tax functions in Latin America are investing in technology, increasing governance and centralization, and looking to evolve the mix of their people's skill sets. Tax authorities are also investing in technology and as a result, multinationals operating in the region face new demands that change the way they work with tax authorities across different markets. To avoid operational risk, severe financial penalties and reputational harm, tax functions must adapt quickly as authorities have greater ability to access more business information in real time."**
>
> **Alfonso Pallete**
> **Latin America Head of Markets, Americas Tax***
> **KPMG in the US**
>
> **All professional services are provided by the registered and licensed KPMG member firms of KPMG International.*

As tax departments leverage technology for their processes to differing degrees, which tax technology tools are key areas of investment for your company now and in the next 5 years?



Note: Totals might not add up to 100% due to rounding.
Source: 2019 Tax Benchmarking Survey, KPMG International.

What changes do you expect to see in the systems that supply tax information over the next 5 years?

	Overall leverage of enterprise finance IT systems for tax purposes	Use of consolidation system data for tax purposes	Understanding by IT resources of tax data needs	Investment in tax-specific technologies
Increase	73%	65%	65%	62%
Stay the same	21%	33%	31%	35%
Decrease	6%	2%	4%	4%




Note: Totals might not add up to 100% due to rounding.
Source: 2019 Tax Benchmarking Survey, KPMG International.

Use of tax data warehouse	Tax sensitization of business forecasting systems	Tax sensitization of G/L and other accounts
61% Increase	50% Increase	46% Increase
35% Stay the same	48% Stay the same	52% Stay the same
4% Decrease	2% Decrease	2% Decrease

Note: Totals might not add up to 100% due to rounding.
Source: 2019 Tax Benchmarking Survey, KPMG International.

If tax leaders of Latin America-based companies were to receive a generous budget increase to invest in one area, the top beneficiaries would be (in ranked order):

1. tax technology
2. training and education
3. process optimization.

If you received a generous budget increase to invest in one key area of your tax department, in which of the following would you invest?

37% | Tax technology

25% | Training and education

21% | Process optimization

17% | Additional personnel

Source: 2019 Tax Benchmarking Survey, KPMG International.

Key takeaways:

- The trend toward increasing centralization of tax departments will continue for Latin America-based companies, and process standardization tops the list of tax leaders' priorities for process improvements.
- Over half of respondents expect their number of FTEs to increase — with almost one in five projecting their head counts will grow by more than 20 percent. Increasing training and education for tax staff members is a top priority for investment.
- Compared to global averages, companies in the region are making more use of opportunities to drive efficiencies by increasing their use of tax-related software. Tax leaders in the region said tax technology would be their number one priority for new investment.
- Document management systems are currently the most commonly used tax software in the region, and almost one-third respondent companies that do not use it now intend to acquire it in the next 5 years.
- Latin American respondents are more likely than their global peers to use country-by-country reporting and transfer pricing software, and a significant percentage plans to acquire more of such software in the next 5 years.
- Respondents in Latin America are much more likely than their global peers to be satisfied with their companies' ERP systems, which suggests many companies in the region have already upgraded their ERP systems to meet tax authorities' requirements for electronic disclosures.
- Tax leaders' top three priorities for new investment are tax technology, training and education, process optimization.

Resources

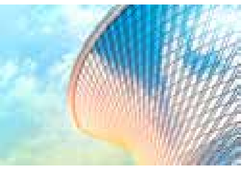
For more information and resources, please explore the links below or visit kpmg.com/tax. You might also consider attending an upcoming event designed to address issues of interest to tax leaders. As always, please feel free to contact a KPMG professional to discuss these strategies and tools, or to speak about the tax issues you face today.

Global Tax Department Benchmarking Survey

home.kpmg/taxbenchmarking

The Global Responsible Tax Project

home.kpmg/responsibletax



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