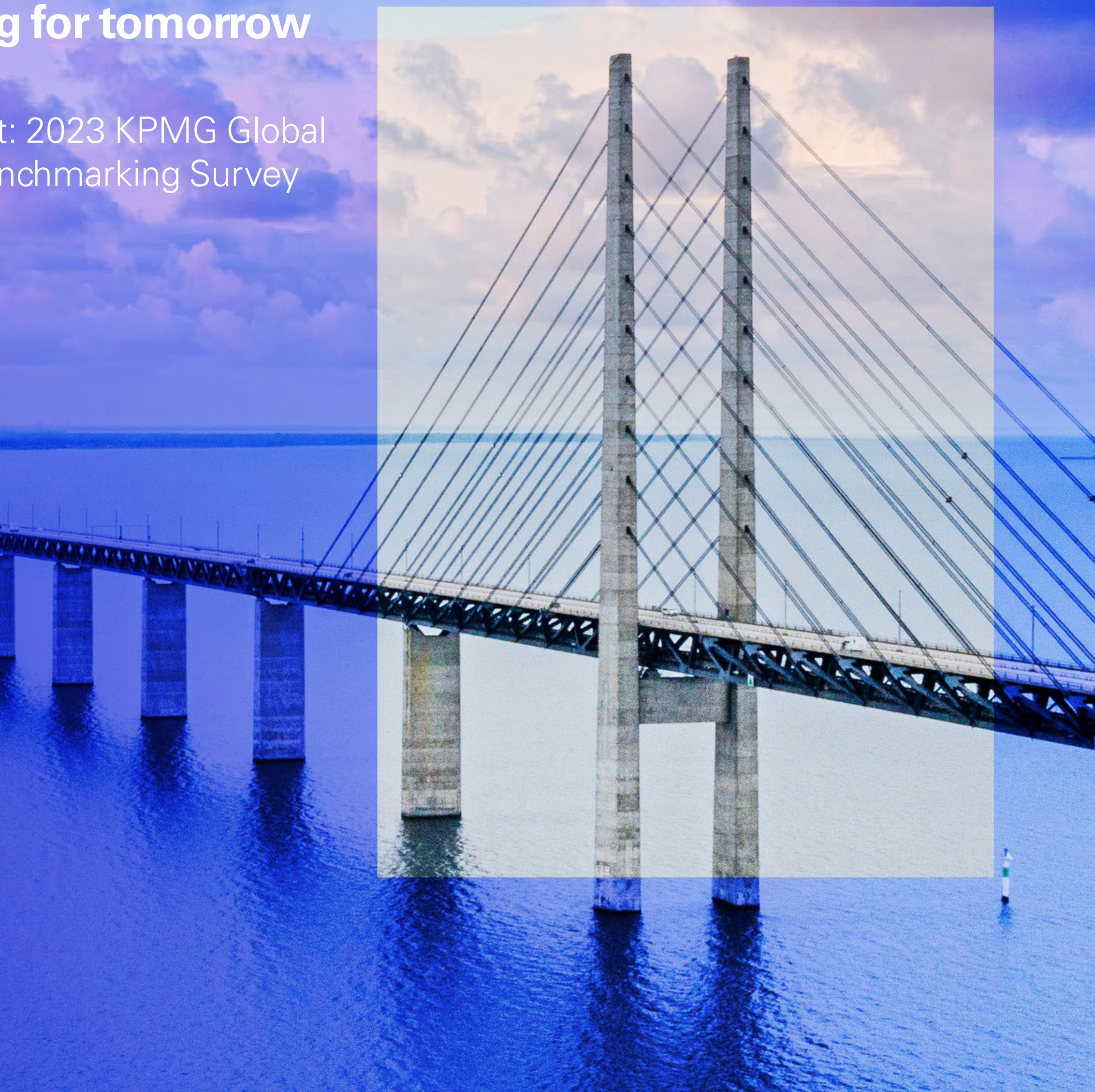
Inside global tax functions:

Managing today and transforming for tomorrow

Summary report: 2023 KPMG Global Tax Function Benchmarking Survey



KPMG International

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

For tax executives of multinational organisations, benchmarking against comparable tax functions can be a powerful tool for reflecting on your current position and planning how to prepare your function for the future.

To help, KPMG International conducts an ongoing survey of the tax functions in multinational organisations around the world. The data gained offers insights into tax functions globally 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? In step with a long-term trend, the tax function's contribution to strategic value now seems to take priority over cost minimisation in many areas. Companies are moving to centralise tax operations, improve efficiencies, and grow their tax teams at home and around the world. Among other challenges, however, they will need to overcome a shortage of tax talent and the complexities of tax transformation projects.

This report presents an overview of selected key findings from the survey data through to early 2023, and highlights some important takeaways for tax leaders.

Contents

About the survey

- KPMG International's Global Tax Function Benchmarking Survey charts the evolution of leading tax functions and identifies operational benchmarks for high-performing tax teams.
- The selected findings in this summary report are based on a survey of **almost 200 leaders** in charge of tax policy and operations of companies in all major sectors, with participants from 22 jurisdictions worldwide.
- Over **65 percent** of respondent organisations have more than US$5 billion in annual revenue or turnover. About **90 percent** have global tax functions serving operations in multiple countries/jurisdictions.
- Tax leaders can still participate in the survey. By doing so, you will have the opportunity to receive personalised insights into how your tax function compares across key areas. Please visit **kpmg.com/taxbenchmarking** or email **tax@kpmg.com** to learn more.

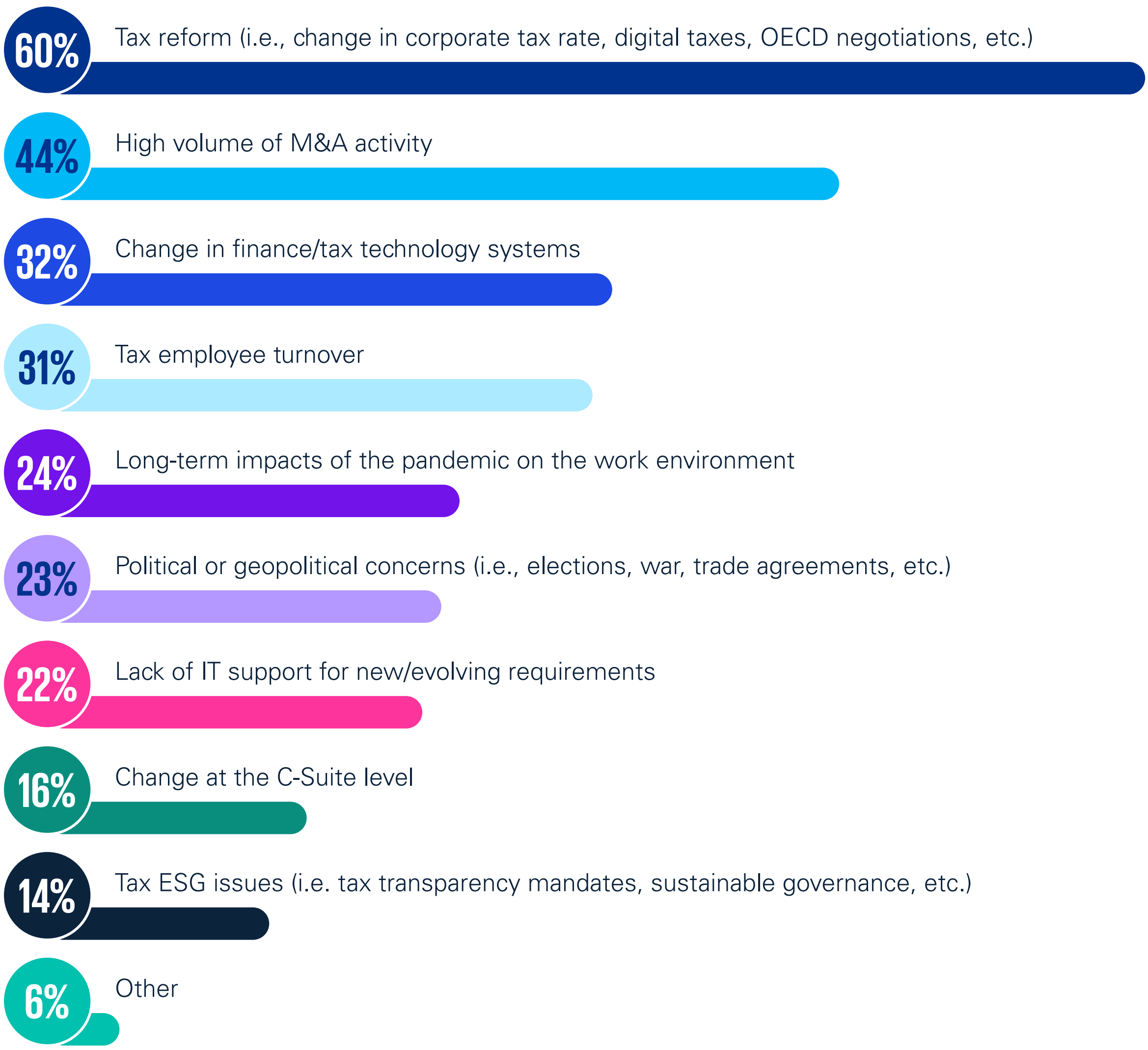
Structure and resources

From geopolitical turmoil and the pandemic's long-term effects on the future of work to the challenges of technological transformation, today's tax functions face disruption on all sides. At the same time, they're under intense pressure internally to cut costs, improve efficiency and add more value.

When asked to name the most impactful disruptor for their organisation in the past year, a high majority of Chief Tax Officers (CTOs) surveyed named tax reform. Uncertainty abounds as the Organisation for Economic Co-operation and Development and participating countries continue the complex work of designing and implementing a coordinated international tax system in an environment further complicated by changing corporate tax rates and proliferating digital services taxes.

The recent worldwide surge in mergers and acquisitions (M&A) also had many organisations and their tax functions on their toes over the past year. Changes in finance/technology systems was the greatest disruptor for just under one-third of respondents, followed closely tax employee turnover.

Which of the following disruptors have had the greatest impacts on your organisation within the last year?



Note: Survey participants may select multiple response option
Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

What's the best approach for tax functions trying to manage the effects of this disruption while delivering on their expanding mandates?

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

For many organisations, having a tax function operating model that centralises management and resources can help to achieve these ends. Centralisation 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.

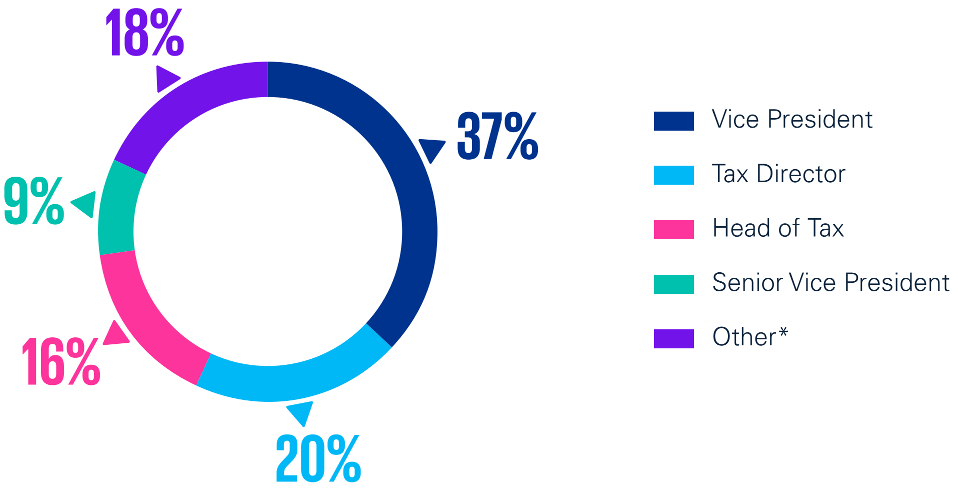
Survey results show that many companies are moving toward greater centralisation of tax resources and activities. However, these companies may have opportunities to further centralise accountabilities and activities — for example, through greater use of shared service centers or other centralised sourcing models.

Reporting lines

Globally, the majority of tax functions fall within the finance function. About two-thirds of tax leaders report to the Chief Financial Officer (CFO) or Head of Finance (other than CFO), while only 3 percent report to the Chief Executive Officer (CEO) directly.

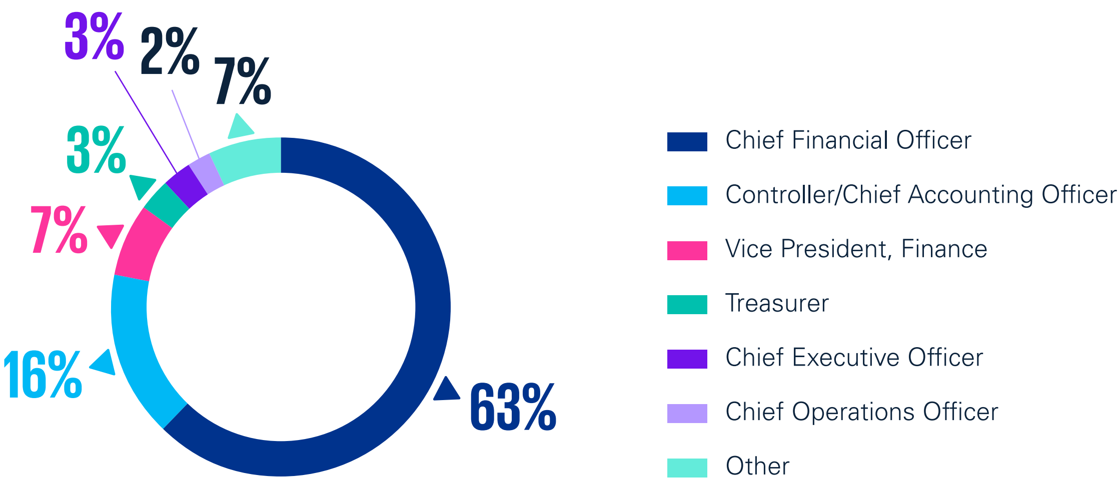
The top three most common titles for Chief Tax Officers are Vice President (37 percent), Tax Director (20 percent) and Head of Tax (16 percent).

What is the title of the Chief Tax Officer?



*Other includes: Assistant Vice President, Tax Controller, Manager, Chief Tax Officer and Senior Manager
Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

To whom does the Chief Tax Officer report directly?



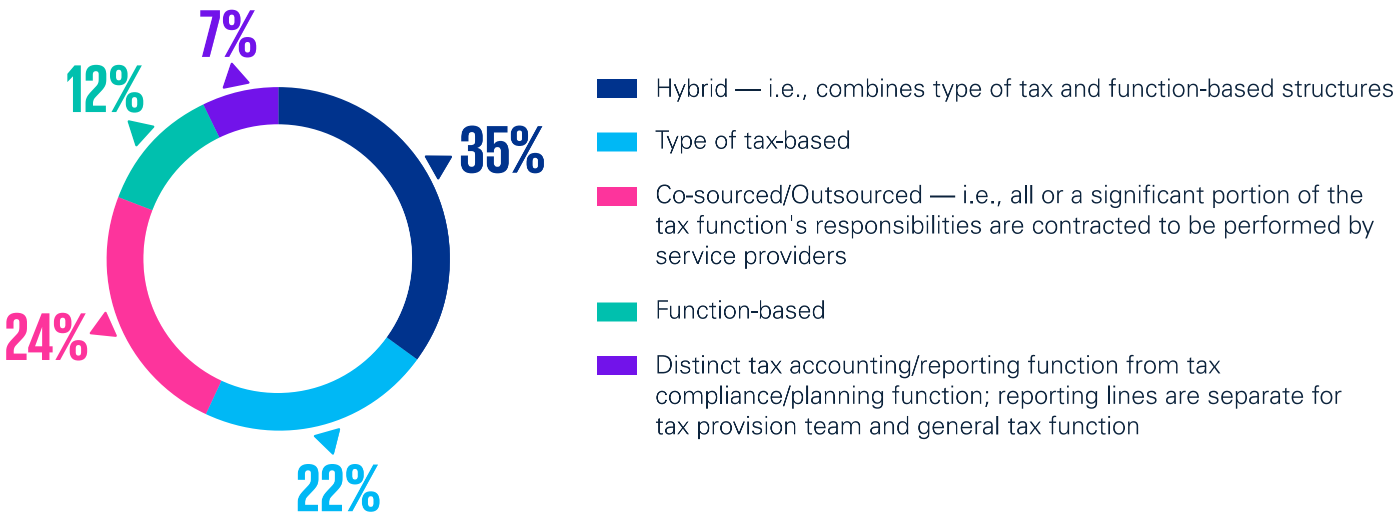
Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

Organisational design

Traditionally tax functions have had operating models designed by type of tax (e.g., direct, indirect) or by function (e.g. tax accounting/reporting, compliance), often with some element of outsourcing.

Today, the majority of respondents (35 percent) have moved to hybrid structures that combine types of tax with functions. Just over one in five are still organised by type of tax while almost one-quarter co-source or outsource all or a significant portion of the tax function's responsibilities to external service providers. Only 12 percent are aligned by function.

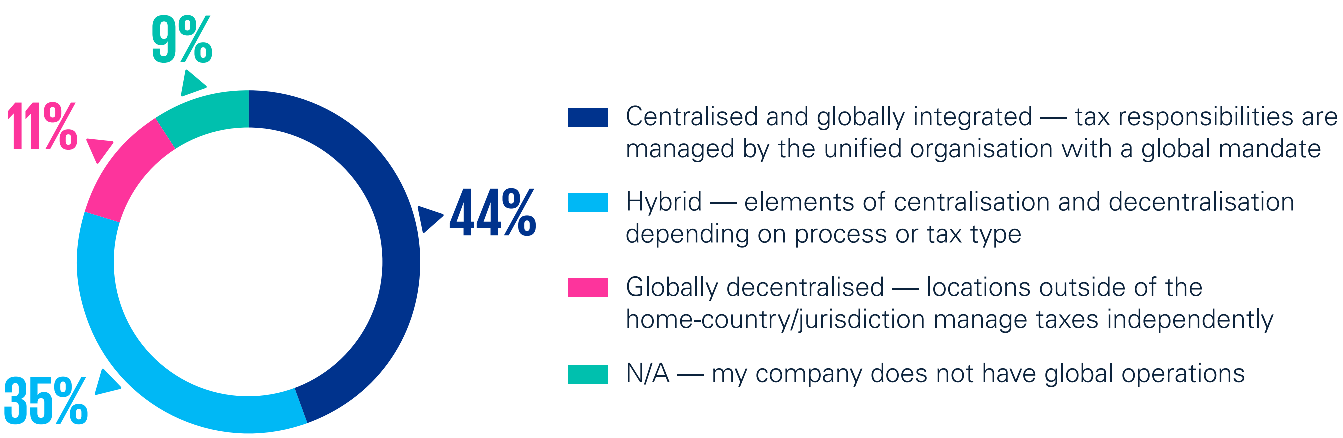
What organisational structure best illustrates your tax function?



Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

Survey results show that most companies have moved to centralise their tax operations to some extent. Only 11 percent maintain globally decentralised tax functions where non-home country/jurisdiction taxes are locally and independently managed. Forty-four percent of respondents now have centralised, globally integrated tax functions with global mandates. Another 35 percent have hybrid tax function structures that include elements of both centralisation and decentralisation depending on the process or type of tax.

On a global scale, this organisational structure is:



Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

Staffing and sourcing

On average, tax functions of respondent organisations have 21 full-time employees (FTE) at all levels reporting to their Chief Tax Officer in the home country/jurisdiction and on average 27 FTEs across all non-home countries/jurisdictions. Respondents also report having an average of 25 employees in offshore shared service centers (SSC) and 9 in onshore SSCs, primarily at the staff and analyst level.

How many full-time equivalent personnel (FTE) report to your company's tax function?

	Home country	Non-Home country	SSC based offshore	SSC based onshore
VP Level (includes EVP, SVP, AVP, etc.)	1	1	0	0
Director	3	3	1	0
Counsel	1	1	0	0
Senior Manager	3	4	1	0
Manager	3	4	2	3
Senior Staff	4	5	7	2
Staff or Analyst	3	7	14	4
Administrative Resource	1	1	0	0
Contractors	2	1	0	0

Note: Figures in chart represent the average response for each FTE type.
Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

Fifty-six percent of tax functions are responsible for national and subnational tax compliance for their home countries/ jurisdictions. Thirty-five percent have responsibility for non-home country/jurisdiction compliance. For the majority of respondents, the tax function has primary responsibility for:

- Tax function administration
- Tax technology
- Tax planning
- Accounting for income tax
- Tax training
- Audit support/controversy

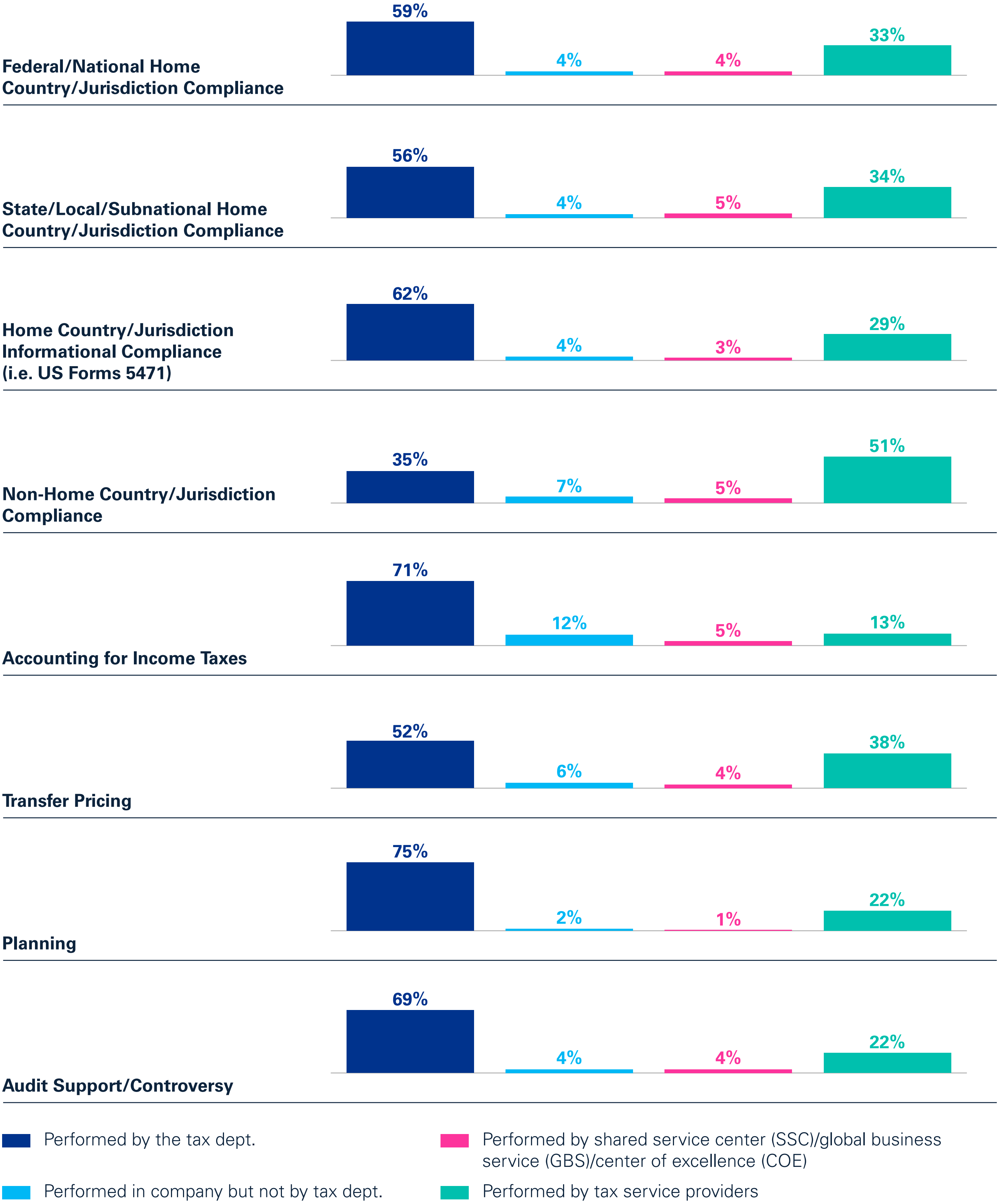
The tax work most commonly done by other functions within the company includes trade and customs, bookkeeping (i.e. non-home country/jurisdiction GAAP books and records) and other regulatory/ industry reporting.

A majority of tax functions use shared service centers (SSC) and tax service providers to perform some tax compliance and other activities. In addition to home and non-home country/jurisdiction compliance (direct and indirect), the processes most commonly delegated to SSCs are bookkeeping, statutory account preparation and other regulatory/ industry reporting.

Tax service providers are engaged for compliance and, most commonly, expatriate tax matters, transfer pricing and training.

For each of the following core tax functions, please indicate the percentage of these activities in whole numbers (without decimals) that are performed by the following groups.

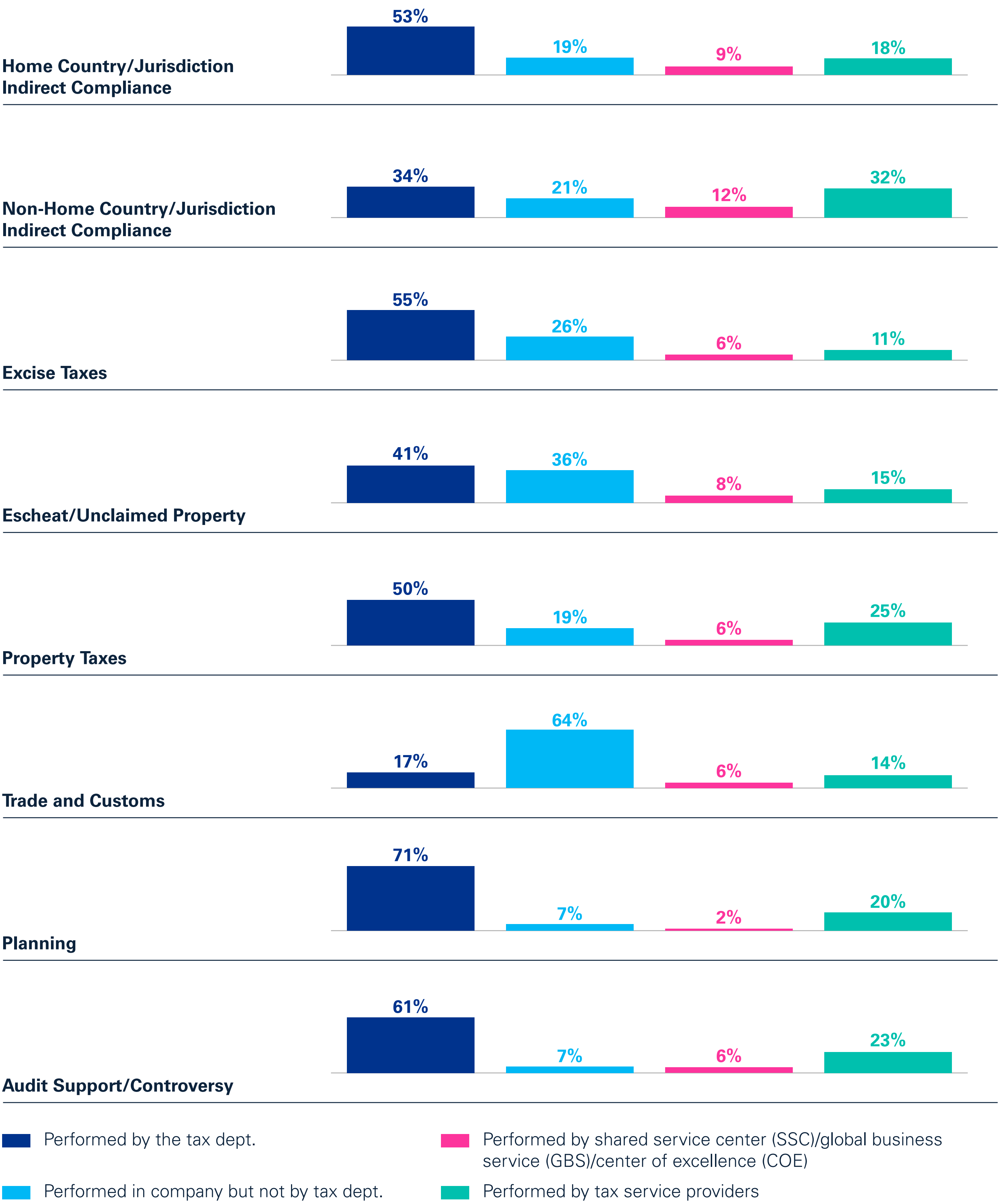
Direct Taxes: (Chart 1/3)



Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

For each of the following core tax functions, please indicate the percentage of these activities in whole numbers (without decimals) that are performed by the following groups.

Indirect/Ad Valorem/Excise Taxes: (Chart 2/3)



Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

For each of the following core tax functions, please indicate the percentage of these activities in whole numbers (without decimals) that are performed by the following groups.

Administration and Other: (Chart 3/3)

Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

Administrative budget

The companies surveyed had an average annual worldwide budget for tax function administration of just over US$6.5 million. Another US$1.5 million in tax function costs are captured in the budgets of other departments.

The bulk of tax function budgets are allocated toward talent, with half of the budget generally earmarked for employee compensation and benefits, and 46 percent going to outside consultants (25 percent for compliance outsourcing and 21 percent for other outsourcing).

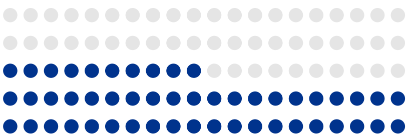
What is the amount of your company's current worldwide tax function budget?

6,592,974

Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

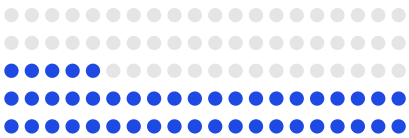
What portion of your company's total tax budget is devoted to the following costs?

50%



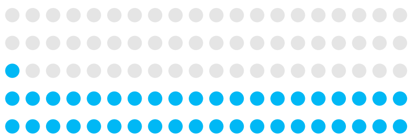
Compensation
(including benefits)

25%



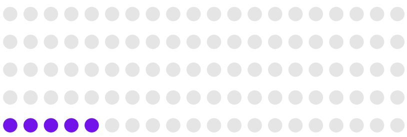
Outside consultants
(compliance outsourcing)

21%



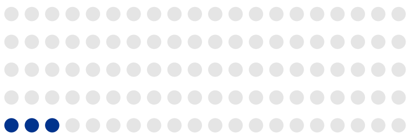
Outside consultants
(non-compliance outsourcing)

5%



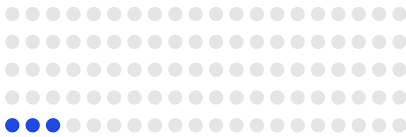
Technology (hardware/software/
internal allocations)

3%



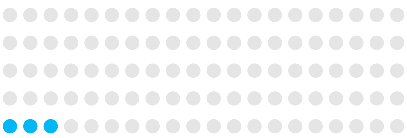
Contractor/
temporary personnel

3%



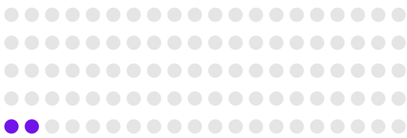
Training
(including travel)

3%



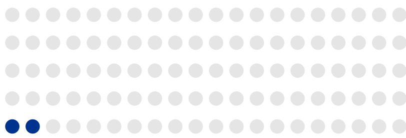
Travel
(excluding travel for training)

2%



Research/library materials and
subscriptions

2%



Supplies and other
miscellaneous expenses

Note: Multiple responses allowed
Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

Key takeaways:

- International tax reform, surging M&A activity and changes in finance/technology systems are the three biggest disruptors affecting tax functions today.
- Most tax functions still fall within the finance function, although a significant proportion are independent. Only 3 percent of heads of tax report to the CEO directly.
- Most companies have moved to centralise their tax operations to some extent, and the majority has moved to hybrid structures that combine types of tax with functional alignment, rather than organising along tax-specific or functional lines.
- A majority of tax functions use SSC and tax service providers to perform some of tax compliance and other activities.
- In addition to home and non-home country compliance (direct and indirect), the processes most commonly delegated are:
  - For SSCs: bookkeeping, statutory account preparation and other regulatory/industry reporting.
  - For tax service providers: **expatriate tax matters**, transfer pricing and training.

Process, performance and metrics

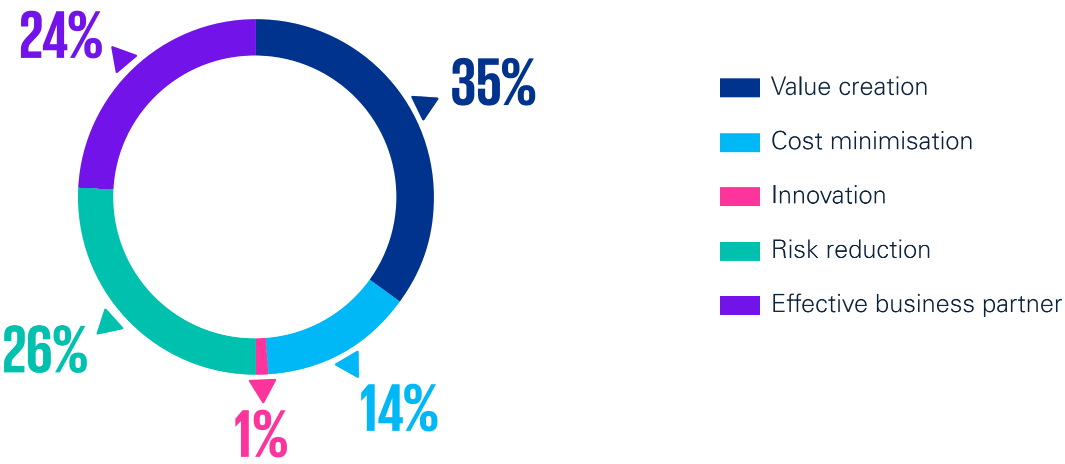
As tax functions continue to evolve, transformation projects are redesigning their processes to bring greater efficiency through centralisation, standardisation and automation. These projects are also promoting more attention to oversight and measurement of the transformed function's performance.

Tax function strategy

The survey results confirm a long-term trend that has seen the priorities of tax functions shift from reactive compliance to proactive value creation. In this year's survey, more respondents said their tax function's primary strategy is most closely aligned with value creation (35 percent) than those with strategies aligned with risk reduction (26 percent) or cost minimisation (14 percent).

Interestingly, being an effective business partner was the primary strategy for 24 percent of respondents. Together with the result for value creation, this suggests that about half of respondent companies are now looking to their tax functions to play a more strategic role in business planning and decision-making.

Which of the following themes most closely aligns with your tax function's primary strategy?



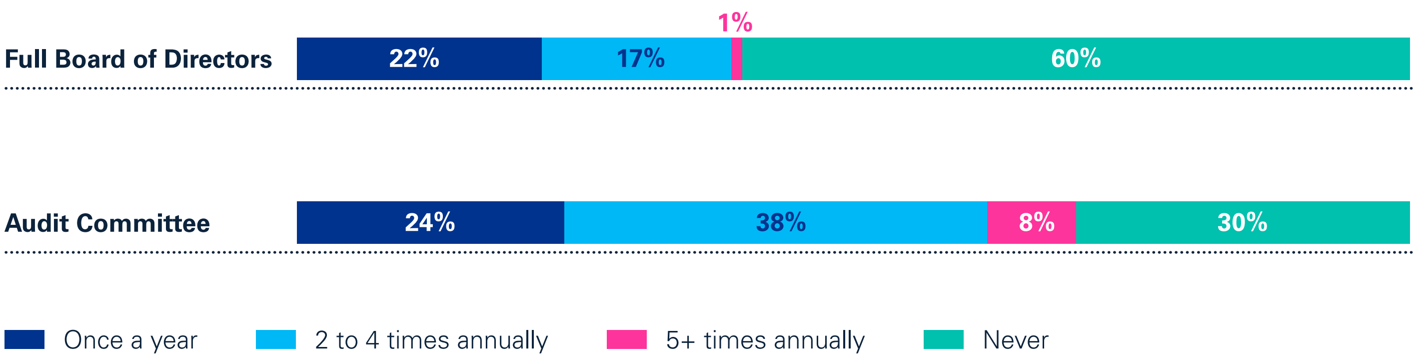
Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

Board and audit committee engagement

Just over one-fifth of Chief Tax Officers responded that they meet with their full boards of directors once a year, and 17 percent have these meetings two to four times a year. A quarter of respondents meet once a year with their audit committees, 38 percent meet two to four times annually, and 8 percent sit down with their audit committees more frequently.

However, 60 percent never meet with their full boards, and 30 percent never meet with their audit committees.

How often does the Chief Tax Officer meet annually with the following?



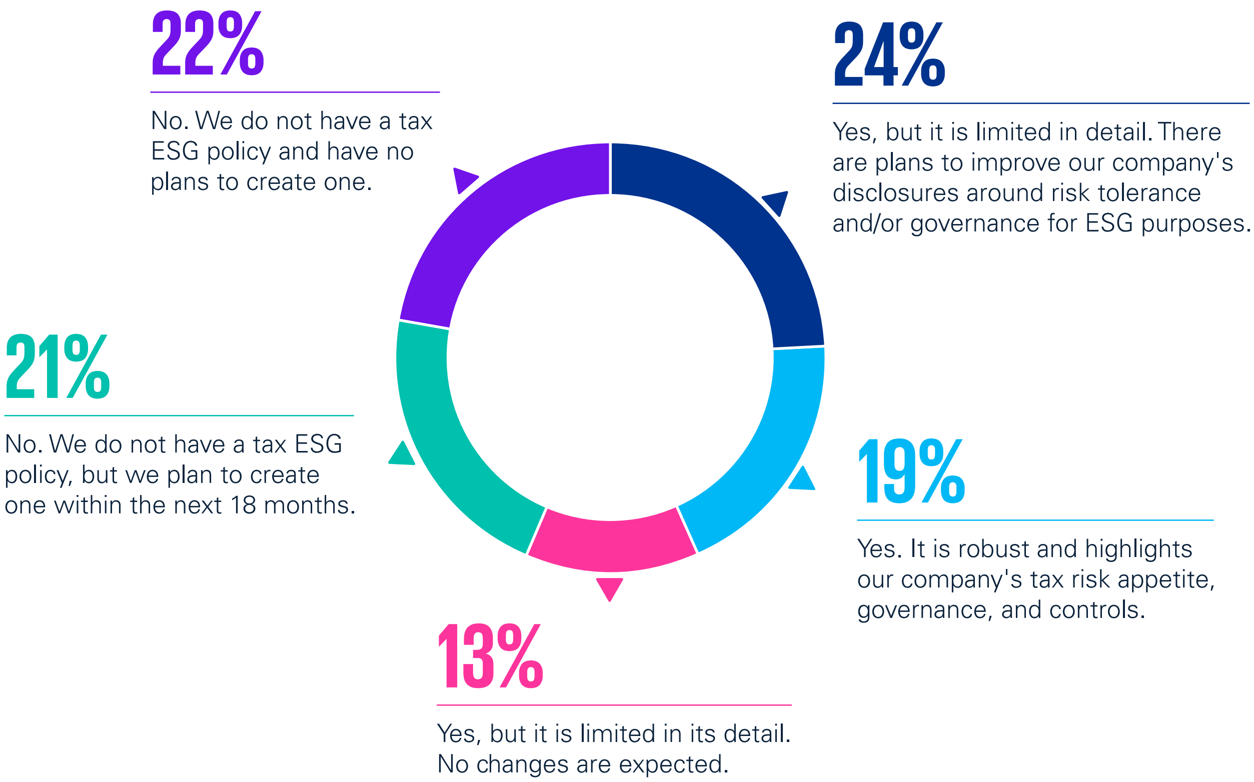
Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

Tax and ESG

With sustainability at the top of the leadership agenda for most companies, tax functions have an important role to play in realising corporate environmental, social and governance (ESG) goals.

Fifty-six percent of Chief Tax Officers surveyed said their company has a policy that considers the ESG of tax-related business decisions to some extent. About one in five say their tax ESG policy is robust and highlights their company's tax risk appetite, governance and controls.

Does your company have a policy that considers the ESG impacts of tax-related business decisions?



Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

Measuring performance

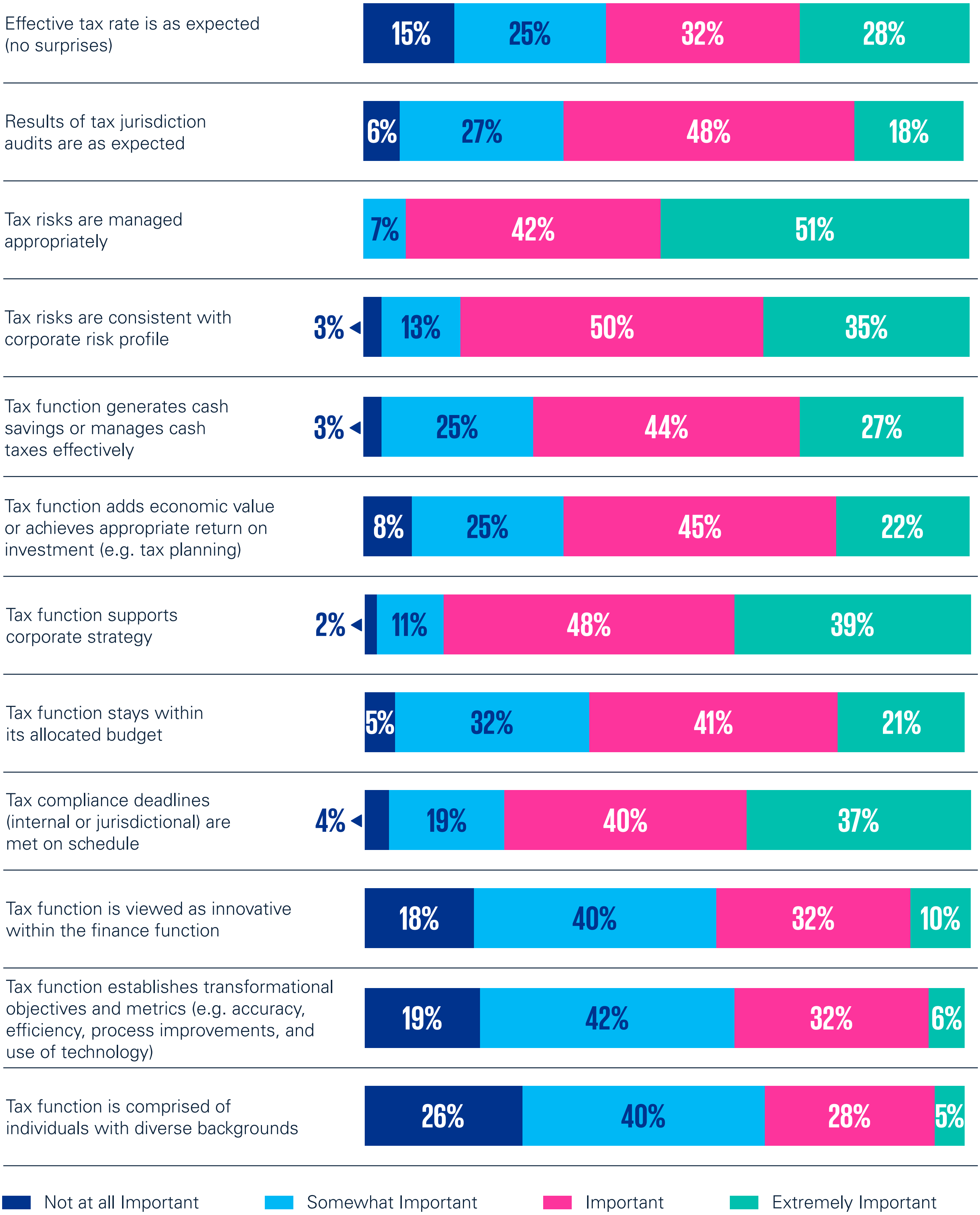
Measurement drives performance and informs leadership of the tax function's effectiveness. Clear, commonly understood performance measures are important for demonstrating the tax function's worth and quantifying the value it brings. Metrics can also be used to support the case for investment in new technologies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

To measure the performance of their tax function, the top five "extremely important" metrics used by management of respondent companies include:

1. appropriate tax risk management (51%)
2. tax function supports corporate strategy (39%)
3. tax compliance deadlines (internal and jurisdictional) are met (37%)
4. tax risks consistent with corporate risk profile (35%)
5. effective tax rate is as expected (no surprises) (28%)

These responses appear to be in line with respondents' priorities within their tax strategy's scope. Traditional tax function metrics — effective tax rate and cash tax savings/management — continued to rank highly, but they are falling behind risk management and strategic measures as tax function priorities.

Please rate the importance of the following performance metric measurements used by management to evaluate the tax function performance:



Note: Figures may not total 100% due to rounding

Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

Rewarding performance

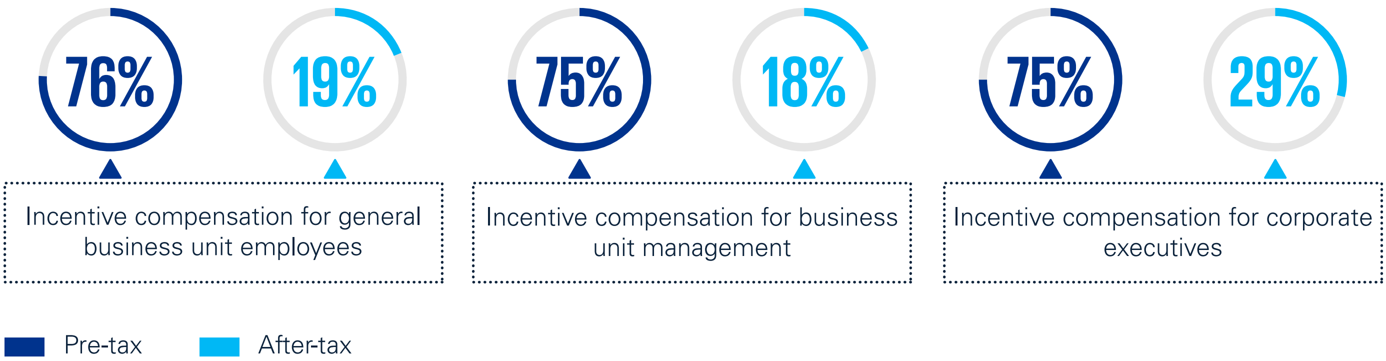
To reward performance, companies are more likely to base some compensation on pre-tax profits than after-tax profits. However, corporate executives are more likely to have their compensation linked to after-tax profits than employees at other levels.

Nine in 10 respondents said their tax function awards high performers with annual bonuses. Other popular performance rewards include:

- alternative work arrangements and telecommuting (48 percent)
- restricted stock units (49 percent)
- cash rewards (spot bonuses) (35 percent).

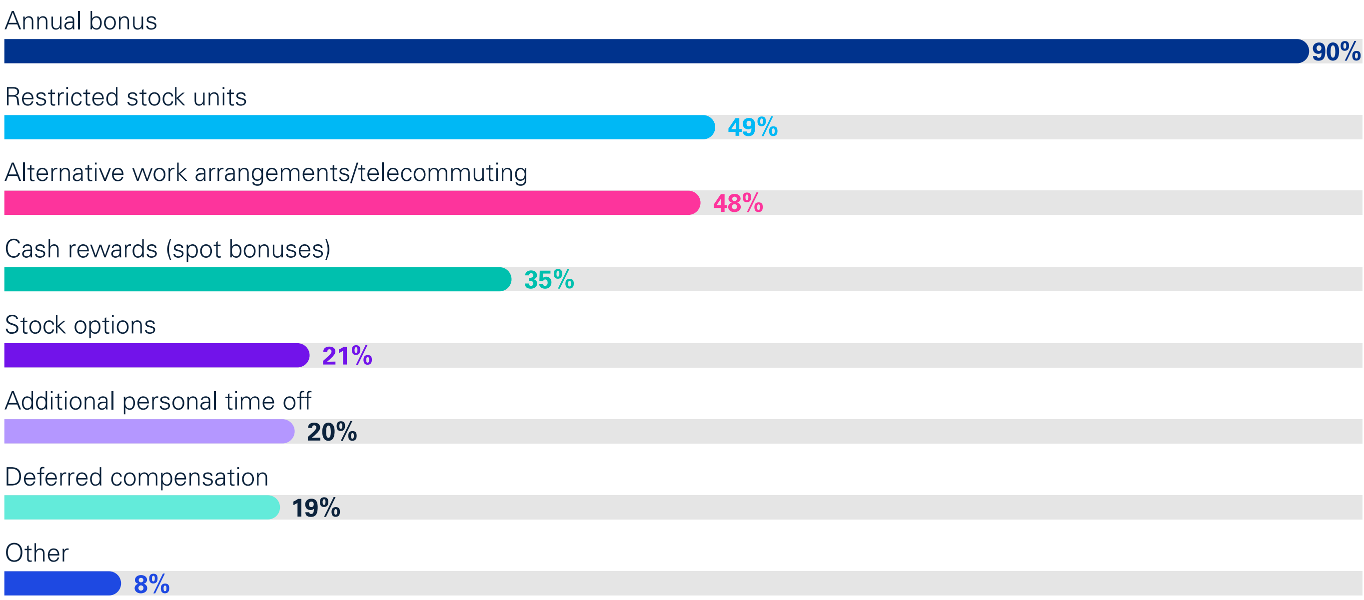
This result highlights the pandemic's legacy as more organisations embrace remote work as a significant element of their compensation strategies for tax and other functions.

Does your company use pre-tax or after-tax profit/loss measurements to help measure employee performance for compensation purposes?



Note: Figures do not total 100% as multiple responses allowed.
Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

Please select the rewards or recognition systems used to encourage high performance from tax function staff:



Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

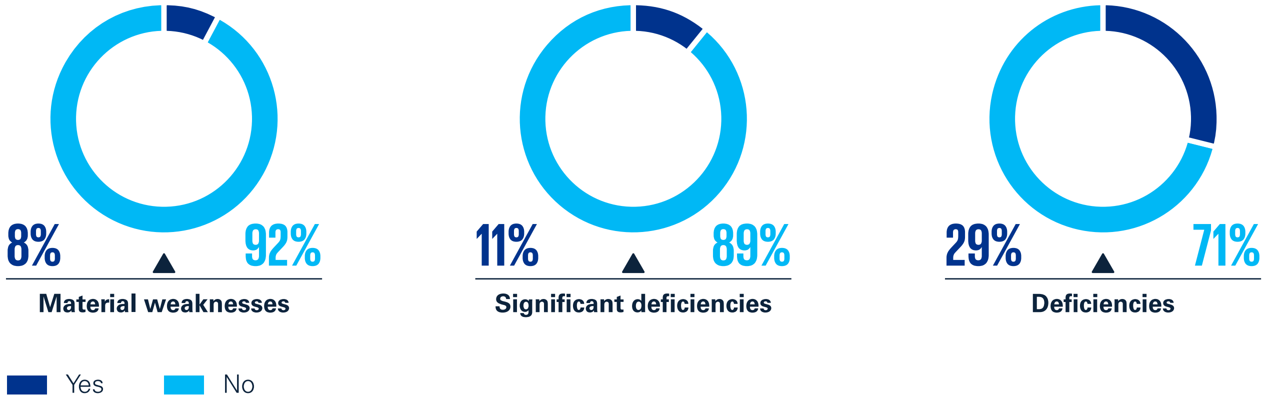
Financial audit results

Based on audits of financial reports for income tax, the focus of standardisation and centralisation seems to be helping to improve the quality of the tax function's work. However, the shortage of tax talent may be putting the quality of tax functions' financial reporting at risk.

In the past 5 years, only 8 percent of respondents had material weaknesses identified in their financial reporting on tax. Eleven percent reported having significant deficiencies over the same time period, and 29 percent had deficiencies.

What issues led to these lapses? Employee turnover or lack of accounting resources and expertise was the cause named most often for deficiencies and significant deficiencies. For more serious material weaknesses, inadequate control design/lack of control was a leading cause in 80 percent of these cases, followed by staff shortage issues in 60 percent of cases.

In your financial reporting for income tax in the past five years, have you experienced:



Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

Key takeaways:

- Survey results confirm a long-term trend that has seen tax functions' priorities shift from reactive compliance to proactive value creation.
- More respondents said their tax function's primary strategy is most closely aligned with value creation than those who said their strategies are aligned with risk reduction or cost minimisation.
- To measure the performance of their tax function, management of respondent companies gave the most importance to how well the tax team manages tax risk, supports corporate strategy and meets tax compliance deadlines.
- Annual bonuses are the most popular rewards awarded to high performing tax talent, while remote work and telecommuting has rapidly become one of the top three performance-related benefits.
- The focus of standardisation and centralisation seems to be helping to improve the quality of the tax function's work, but tax talent shortages may be putting this quality at risk.

Tax functions of the future

At the beginning of this report, we noted that an efficient and effective tax function is structured to help ensure that accountabilities are clear, the right mix of dedicated and shared resources are available, and standardised processes and technologies are leveraged to improve consistency, quality and efficiency.

Survey results suggest that today's companies are prepared to invest in their tax functions to help ensure they can meet the challenges of the future. However, it appears that challenges lie ahead as tax functions struggle with recruitment and retention issues while managing the complexities of tax transformation projects.

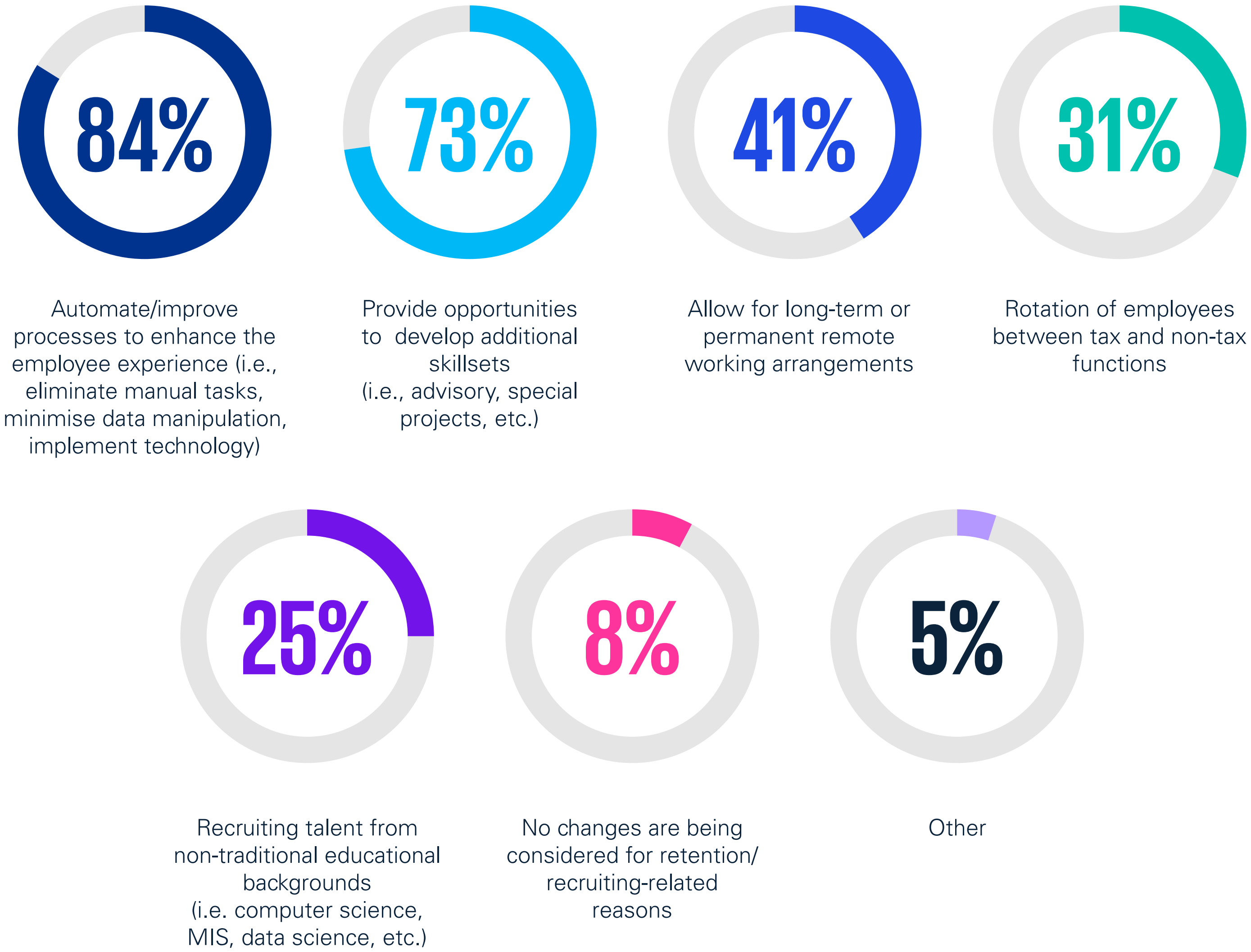
Staffing and sourcing

Almost one-third of respondents expect tax head counts to remain the same over the next 5 years. Almost 60 percent expect their number of FTEs to increase in their home country/jurisdiction and 40 percent anticipate a rise in FTEs in non-home countries/jurisdictions. Almost one-quarter project their home and non-home country/jurisdiction head counts to grow by around 30 percent.

With employee turnover among the top disruptors facing respondent organisations, many of them are stepping up their efforts to attract and retain tax talent. The top strategies that respondents plan to put in place to boost their brands as employers are:

- automating and improving processes to enhance the employee experience
- providing opportunities to develop additional skills
- allowing for long-term or permanent remote working arrangements
- rotating employees between tax and non-tax functions
- recruiting talent from non-traditional educational backgrounds (i.e. computer science, management information systems, data science)

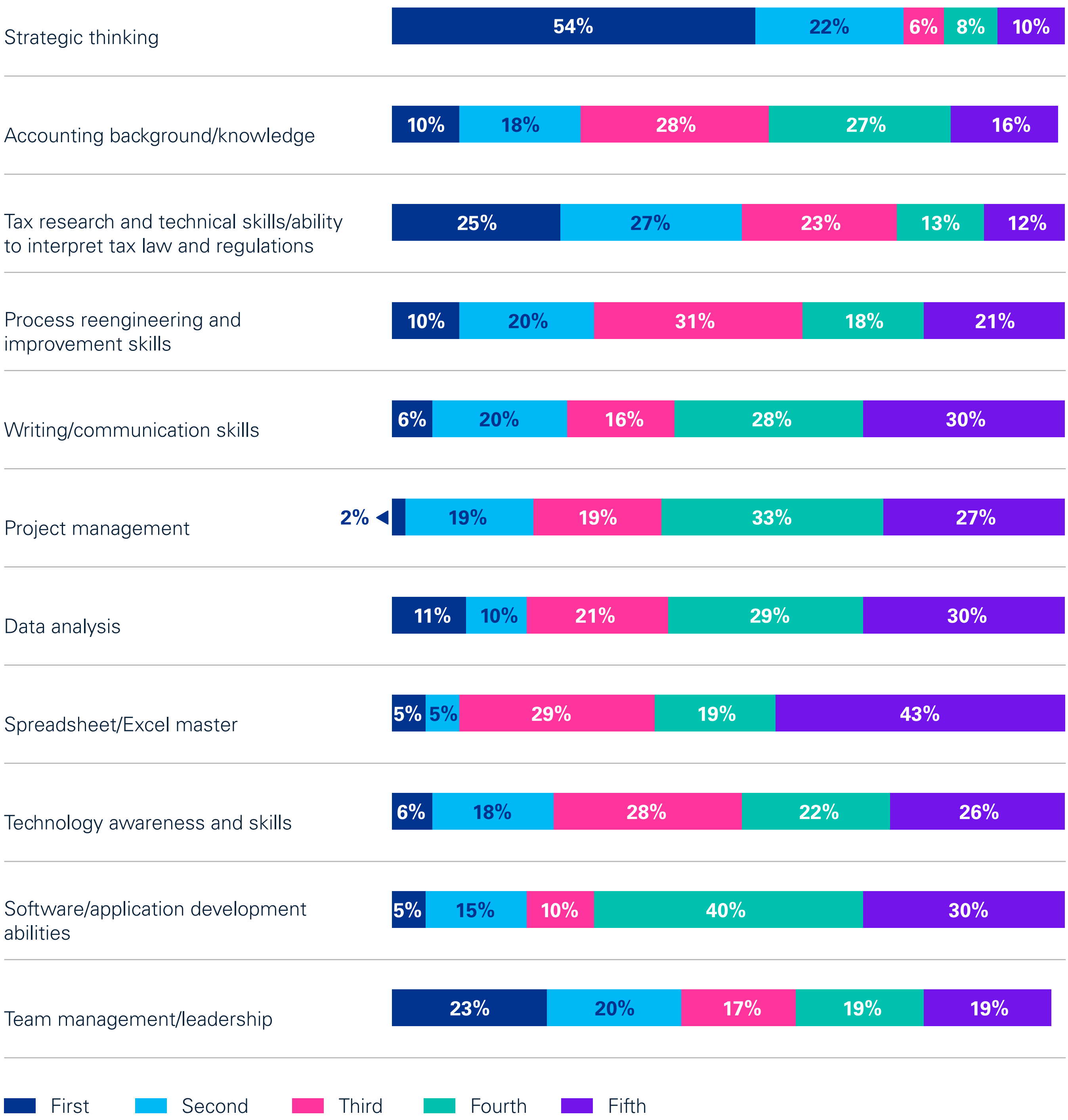
Are you considering any of the following to attract and/or retain tax talent?



Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

In addition to being a key interest for talent, upgrading the tax function's skillsets is also on the agenda for many of the respondents. When asked what skills they think are the most important ones needed in the tax function to ensure it operates at its full potential in the future, strategic thinking was the most popular answer, named by 54 percent of respondents, followed by tax research and technical skills, including the ability to interpret tax law and regulations (25 percent). Team management was cited by 23 percent and was ranked as the third most-sought skill.

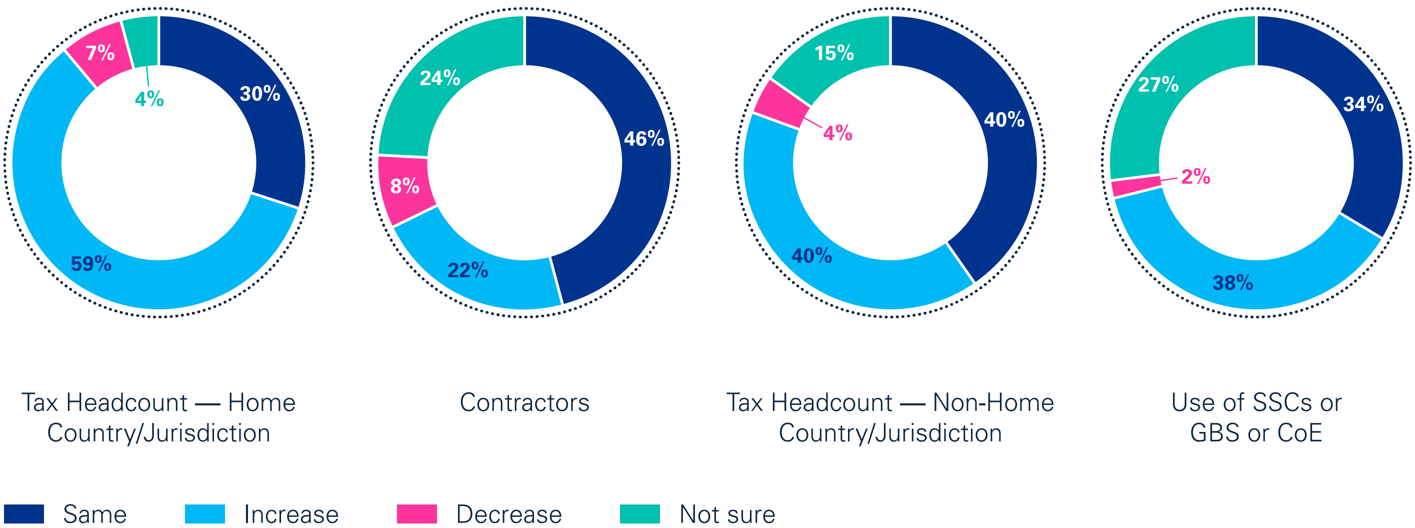
Please rank the importance of the following skills needed in the tax function to ensure it operates at its full potential in the future?



Note: Figures may not total 100% due to rounding
Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

In the next 5 years, 38 percent of respondents expect to increase their use of co-source resources from shared service centers, global business services or centers of excellence — with one quarter of these respondents expecting use of these sources to rise by 25 percent or more. Twenty-two percent plan to bring more contractors into their sourcing mix.

In the next 5 years, what will you resource model look like?

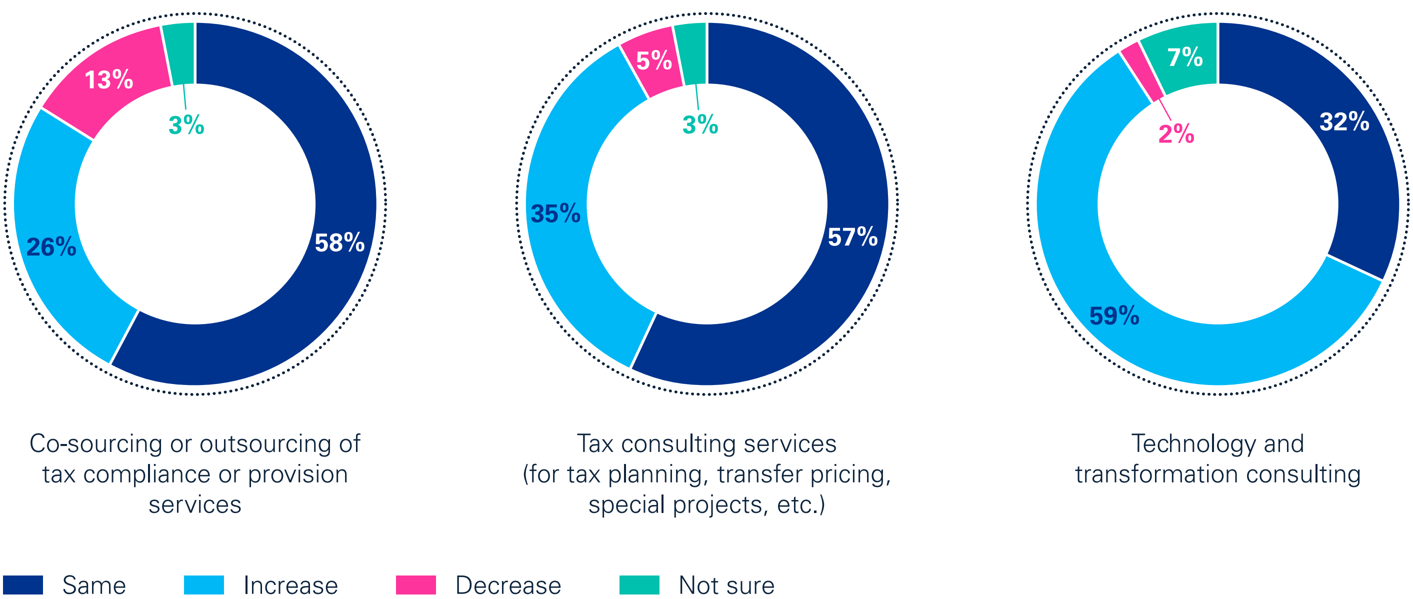


Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

Where tax service providers are concerned, the majority of organisations expect their use will remain the same or increase in the areas of co-sourcing/outsourcing of tax compliance and provision services and tax consulting.

However, a significant 59 percent plan to increase their use of tax technology and transformation consultants within 5 years, and 26 percent of these respondents expect that use to rise by more than 25 percent.

In the next 5 years, what will your use of tax service providers look like?



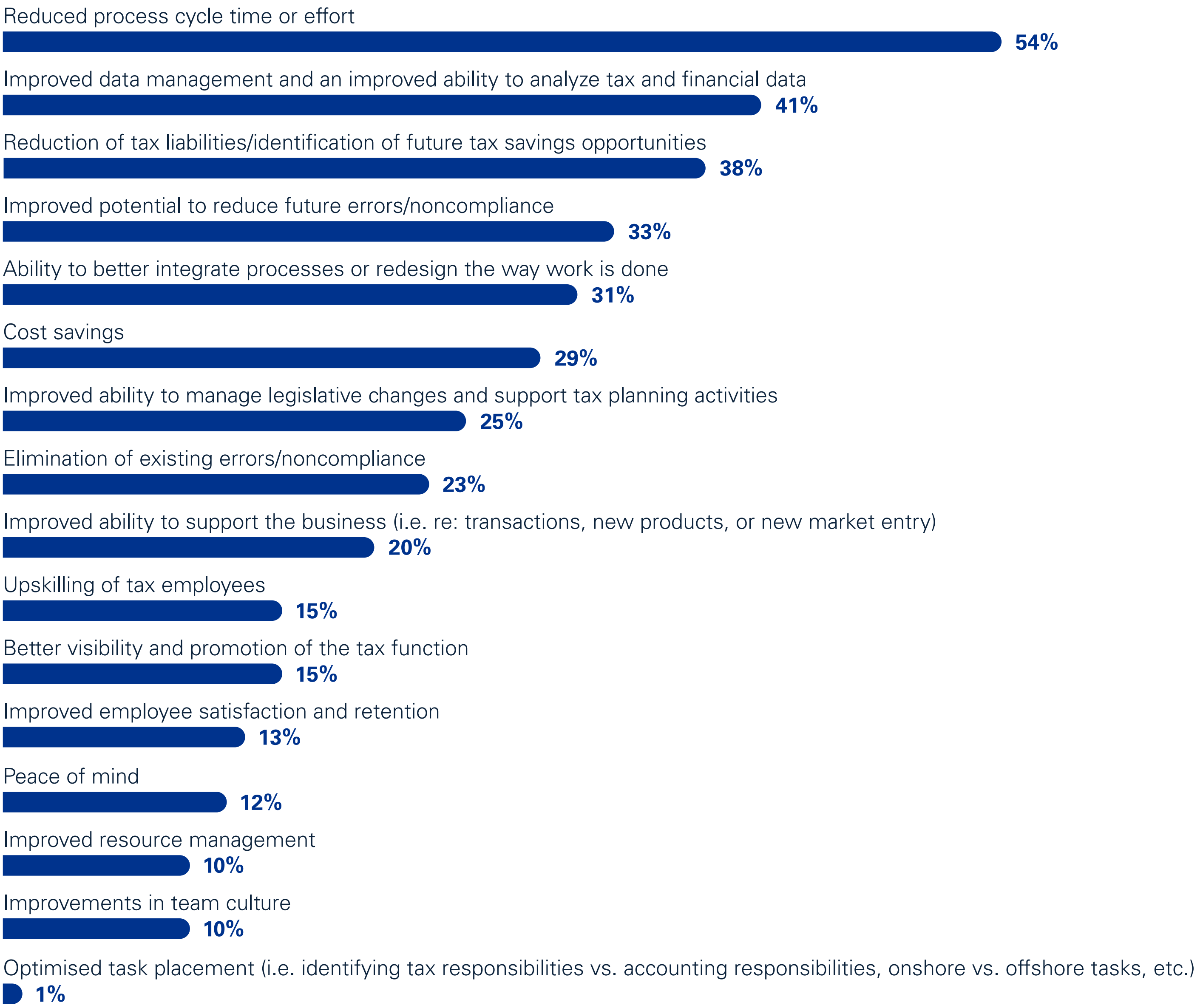
Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

Benefits of tax transformation

Virtually all tax leaders reported that their companies had undertaken tax transformation/technology initiatives with some degree of success. Chief Tax Officers surveyed said the top benefits realised from their tax transformation initiatives are:

- reduced process cycle time or effort
- improved data management and an improved ability to analyze data
- reduction of tax liabilities/identification of future tax savings
- improved potential to reduce future errors/non-compliance
- ability to better integrate processes or redesign the way work is done

In general, what benefits have been realised from any successful tax transformation/technology initiatives that you have undertaken?



Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

What makes tax transformation projects successful? Having the appropriate skillsets to carry out the transformation topped the list of factors, followed closely by effective change management. It was also considered important that the technology solutions sufficiently supported the transformation's objectives and needs.

Tax leaders who have seen unsuccessful transformation projects attributed the failure most commonly to resistance to change or ineffective management, followed by limited buy-in from IT and/or the wider business. Also cited were limited buy-in from IT and/or the wider business, lack of skills to carry out the transformation, and technology solutions that did not work as promised or expected.

Why have your tax transformation or technology initiatives/projects been successful?

Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

Why have your tax transformation or technology initiatives/projects (if any) been unsuccessful?

Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

Priorities for improvement

Looking ahead, the Chief Tax Officers surveyed are looking to improve their tax function's processes through standardisation and more use of technology.

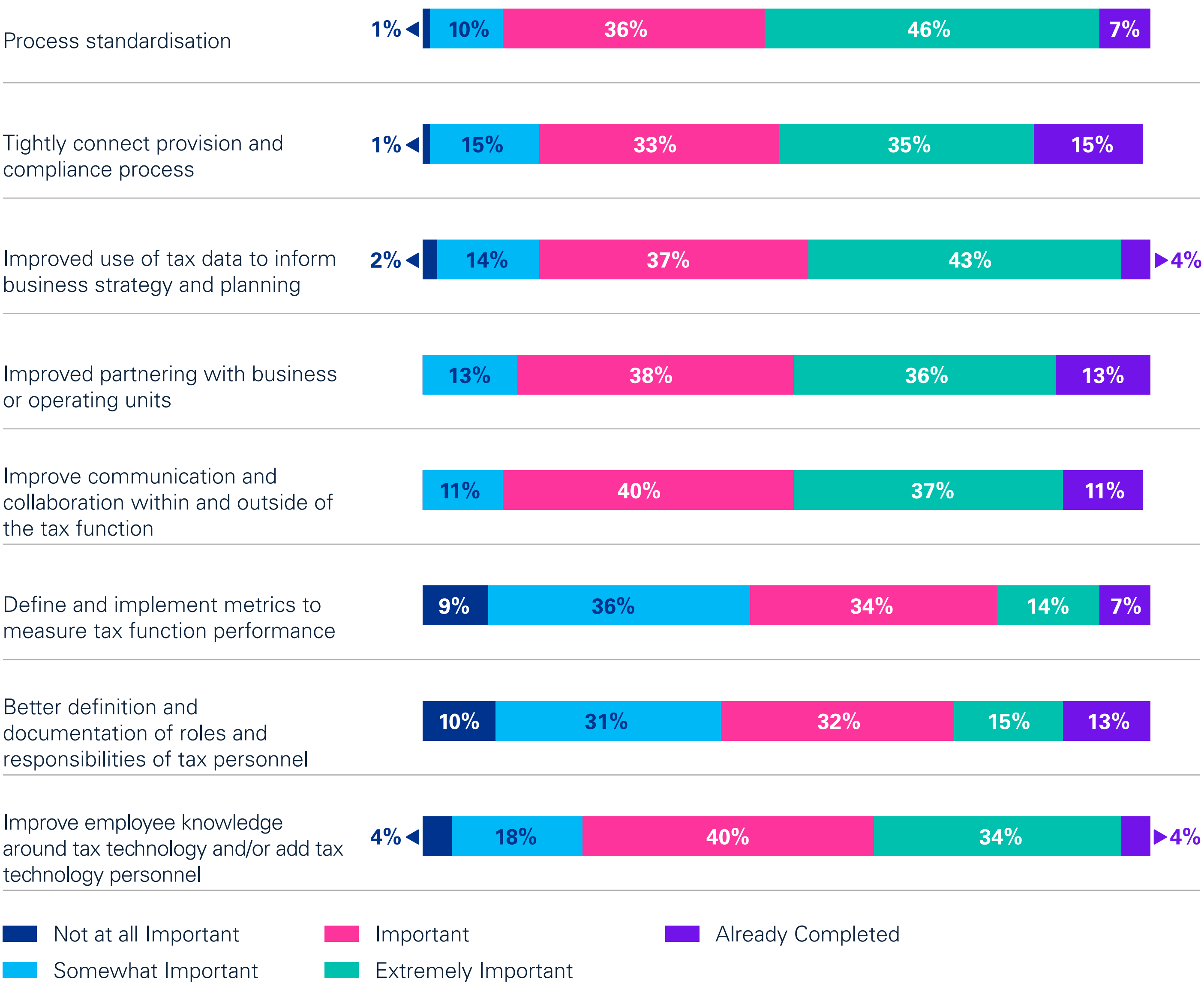
When asked what process improvements they most hope to achieve, process standardisation and improved use of tax data to inform business strategy and planning ranked the highest (ranked as important or extremely important by 82 percent and 80 percent respectively).

Just over three-quarters of the Chief Tax Officers surveyed thought it important or extremely important to improve communication and collaboration within and outside of the tax function. Another 11 percent have already achieved this.

Also important for three-quarters of respondents was enhancing employee knowledge around tax technology and/or to bring in more tax technology personnel to the tax function. So far, only a small minority (4 percent) have made this step.

Despite this focus on technology, however, just under one-quarter of respondents said their tax function has dedicated tax personnel exclusively to tax technology matters or tax process improvement.

Please rate the following process improvements you hope to achieve.



Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

Within your tax function, do you have a dedicated tax technology or process improvement person or group focused exclusively to tax technology matters or tax process transformation?

Note: 1% of respondents indicated they did not know.
Source: 2023 KPMG Global Tax Function Benchmarking Survey, KPMG International, 2023

Key takeaways:

- In the next five years, most companies expect to increase their number of FTEs, as well as their use of co-source resources from shared service centers, global business services or centers of excellence.
- With employee turnover among the top four disruptors facing respondent organisations, many of them are stepping up their efforts to attract and retain tax talent.
- Upgrading the tax function's skillsets is also on the agenda for many of the respondents, with strategic thinking the most-sought skill by far, followed by tax technical skills and team management.
- Chief Tax Officers are starting to see the benefits of completed tax transformation projects, including shorter cycle times, improved data management and analytics, and reduced tax costs.
- Future priorities for improvement include more process standardisation, making better use of tax data in the business planning process, and enhancing communication and collaboration within the tax team and with other functions.
- Despite the emphasis on technology and transformation, only just under one-quarter of respondent tax functions have dedicated tax personnel exclusively to tax technology matters or tax process improvement.

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