



Tax Function Assessment Report-East Africa

Tax Reimagined

September 2022

Foreword



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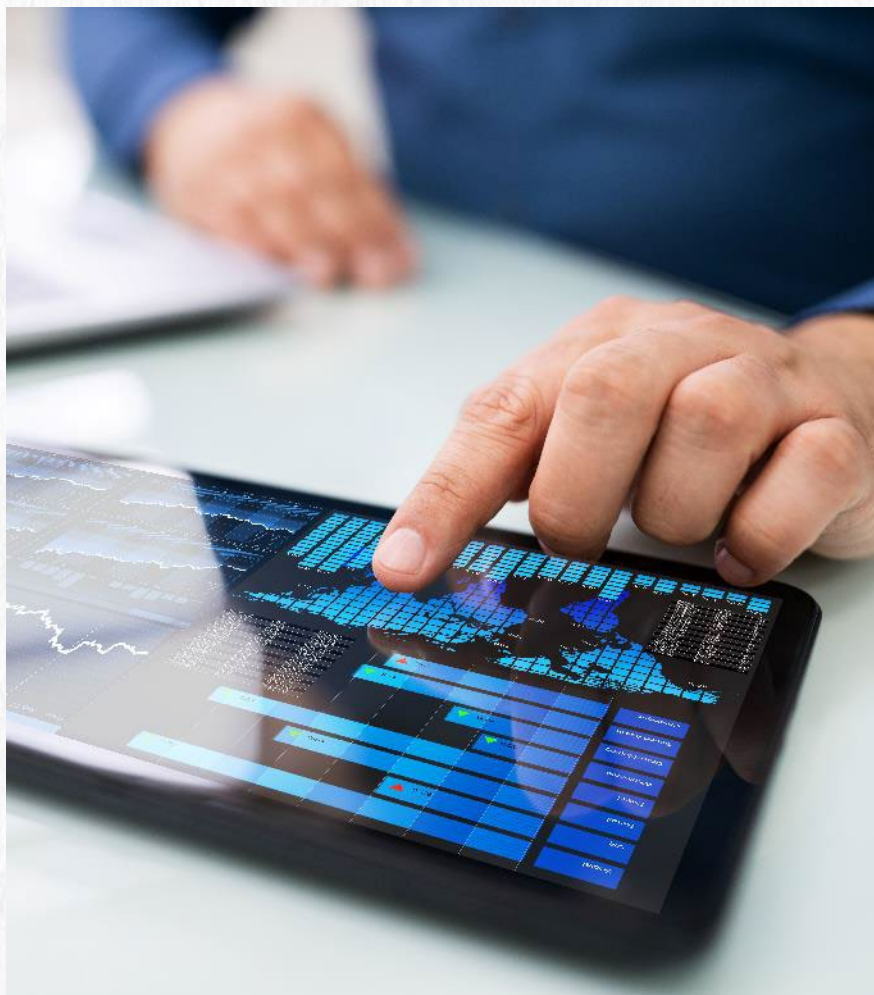
Today's unprecedented pace of change in the tax environment requires different tools and skills to manage the business of tax. Technological innovation continues to rapidly impact how tax responsibilities are performed by taxpayers and regulators alike, as it provides a vast opportunity to take a closer look at how compliance obligations are managed and to delve into data for untapped opportunities and hidden risks.

Tax authorities are using technology to increase compliance, minimize fraud, and increase tax revenue. In Kenya, for instance, the Kenya Revenue Authority rolled out the Tax Invoice Management System (TIMS), an upgrade from the Electronic Tax Register, to facilitate electronic tax invoice management through standardization, validation, and transmission of invoices to KRA systems on a real-time basis. As tax authorities continue to demand more transparency, the implementation of technology will go a long way in ensuring taxpayers remain compliant and keep up with the technologies that are being constantly introduced by tax authorities in the region.

At KPMG, we believe that the tax function that invests in the right mix of people, processes and technologies will be better prepared for the changing business and tax landscape.

Drawing on the perspectives of tax and business leaders across East Africa, the 2022 KPMG East Africa Tax Function Self-assessment Survey offers a snapshot of the structure, governance, priorities and performance measures of tax departments today — and delivers insights on how leading tax departments expect to transform in the future. Therefore, the goal of this report is to provide business and tax leaders with insights that would enable them to benchmark their tax function, and to provide guidance on what to consider when starting the transformation journey.

We would like to thank all the survey respondents for their invaluable time and insights. We look forward to further interaction as we continue to reimagine the tax function in East Africa!



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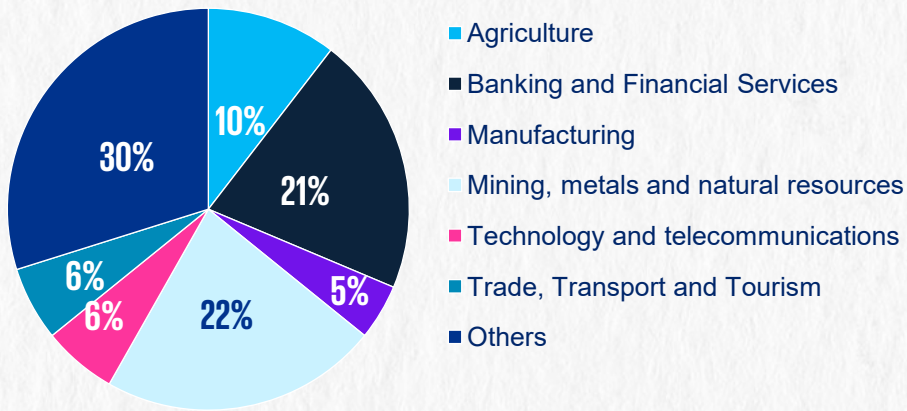
About the Survey



About the Survey

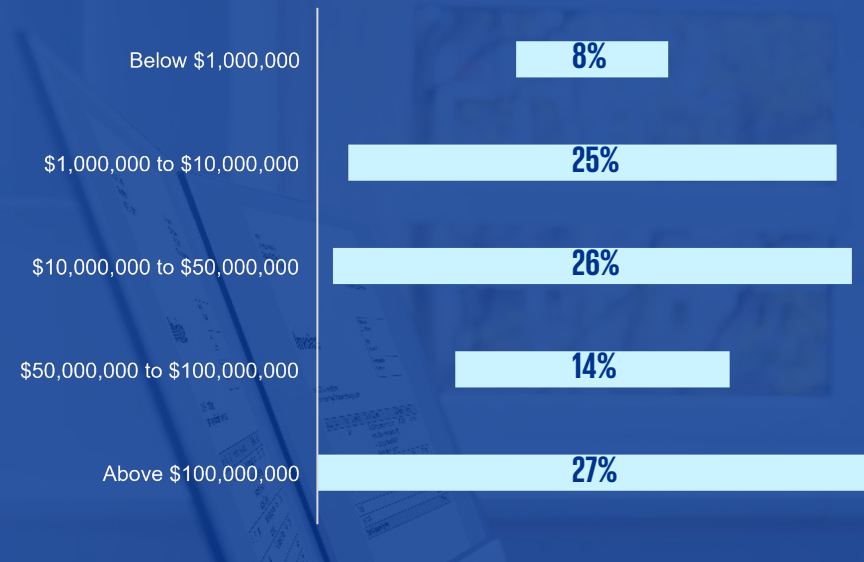
The survey assesses the current state of the tax function focusing on thematic areas, such as governance and risk management, organizational model, resourcing and technology. The survey was completed by CFOs, Tax Leaders and Heads of Compliance from 67 companies.

Sector Distribution

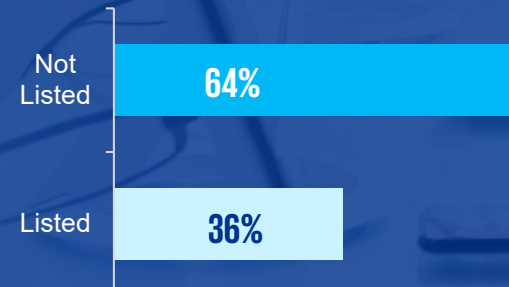


Others include Food, drink, retail and consumer goods, real estate, logistics, media & entertainment

Revenue distribution for the survey's respondents is as below;



Out of the 67 respondents, 36% were listed on a public stock exchange/ external public filings

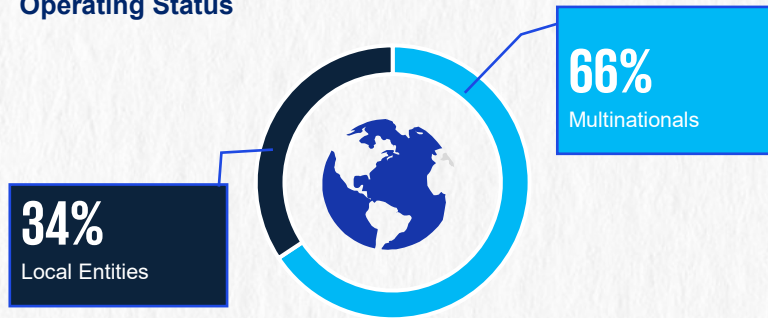


Introduction

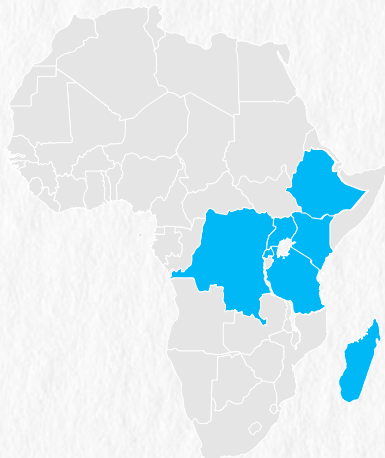
About the Survey (cont.)

66% of the respondents were multinational corporations, 11 of which have operations in over 15 African countries, while 34% were local entities.

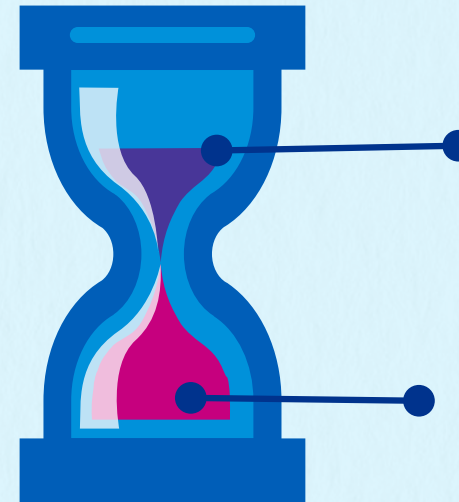
Operating Status



Further, the survey results showed that respondents operate in an average of 7 African countries, with their largest operations distributed as shown below



Ethiopia
Uganda
Tanzania
Kenya
Rwanda
Madagascar
DRC



40%

Respondents who do not disclose any tax information publicly

60%

Respondents who disclose tax information publicly

The survey also showed that 40% of the respondents disclose tax information publicly e.g. as part of environmental, social and governance (ESG) approach or as a result of regional legislative requirements



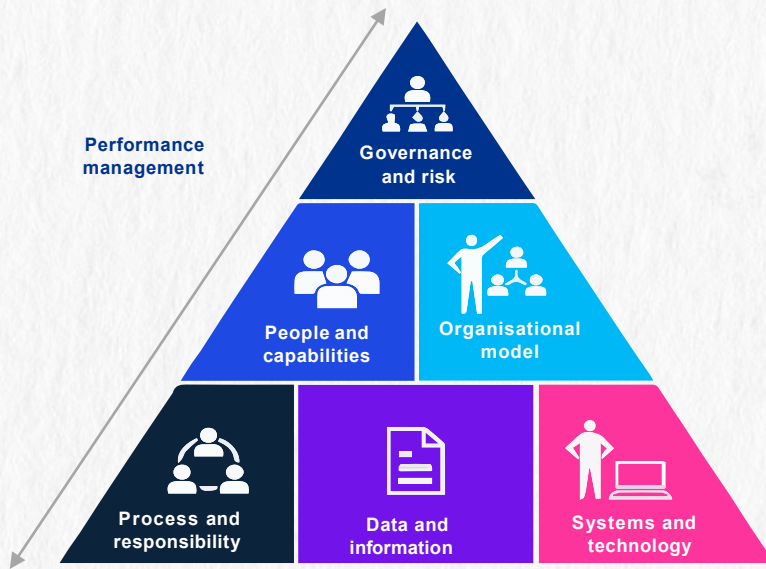
02

Executive Summary

Executive Summary

Research conducted by KPMG International showed that an effective and highly valued tax function manages tax risk and compliance and identifies opportunities to add value to the business through core tax management skills and proactive collaboration with all parts of the business. This is the hallmark of a future-ready tax function. Typically, the evaluation of a future-ready tax function is done from the lens of technology maturity or transformation.

However, a future-ready tax function relies on the successful interplay of seven components as shown in the diagram below

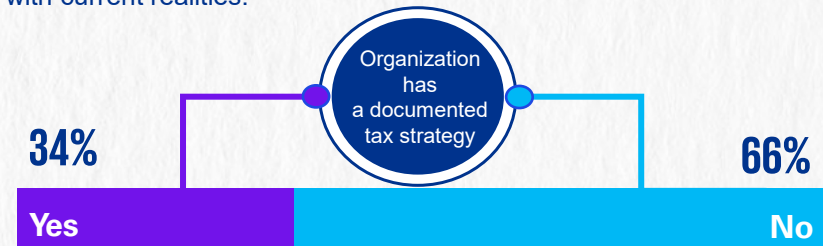


While technology and the related components of data and information are important in view of emerging trends, the tax function also needs the right organizational model, an overarching governance and risk framework, and motivated people with the right skills to ensure that technology achieves the desired result. This report highlights findings across all the components of a future-ready tax function.

The survey's findings about the current state of each component of the tax function's operating model are as follows:

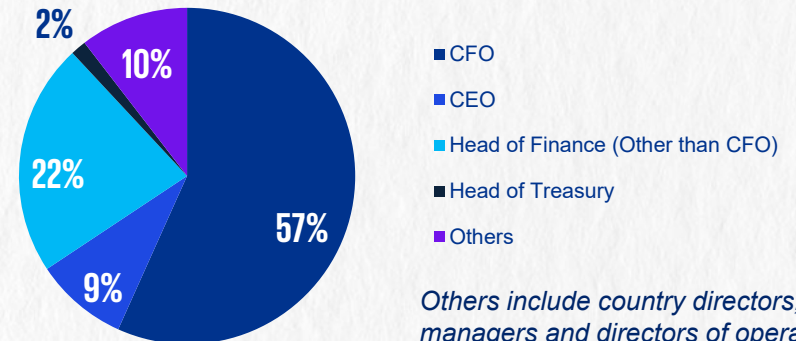
Governance and Risk

66% of the respondents indicated that their organizations did not have a documented tax strategy or overarching tax governance policy document that covers tax risks, frames tax risk tolerance, and instructs other departments on when to involve the tax department. These documents are the primary guides for tax risk identification and management by the organization. As a primary requirement, companies should have a tax policy and/or tax strategy document which is approved by the Board and constantly reviewed to ensure that it is line with current realities.



Organisational Model

Generally, tax functions are centralized within the finance function and report to the CFO.



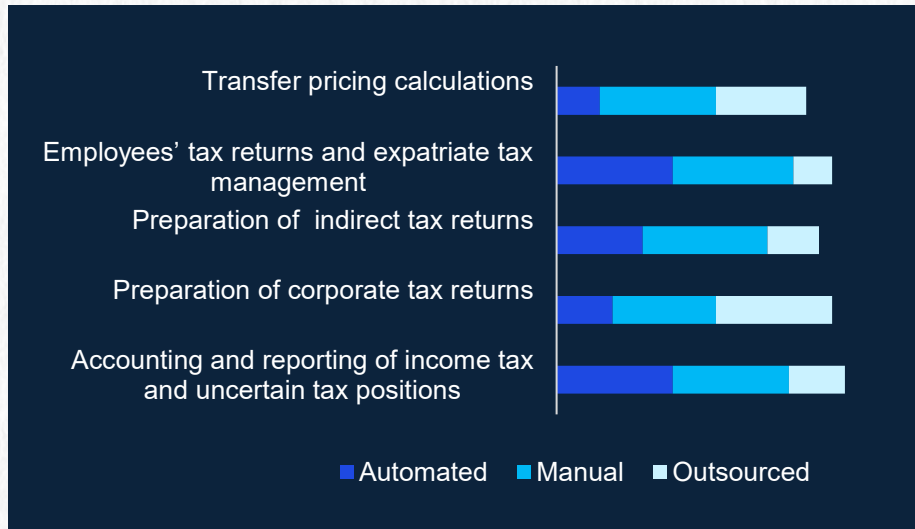
Others include country directors, tax managers and directors of operations

Introduction

Executive Summary (cont.)

Process and responsibility

As seen below, most of the responsibilities of the tax function are performed manually. This would limit the ability of the tax function to focus on strategic and value adding opportunities for the business.



People and Capabilities

The results of the survey show that 73% of organizations with tax personnel have 1-3 resources, 8% have 4-7 resources and 19% have more than 7 personnel. Considering the growing expectations from and responsibilities of Tax functions, business and tax leaders would need to evaluate their organizational model (i.e., whether to hire more personnel, co-sourcing or outsource), in addition to automation of some current processes.

Data and Information

The data required for tax purposes is usually obtained from a central source. More often than not, these data requires moderate to significant scrubbing before it can be used for tax purposes.

26%

Requires significant editing to make it usable for tax purposes

42%

Requires moderate editing to make it usable for tax purposes

32%

Requires little to no editing to make it usable for tax purposes

Systems and Technology

75%

Have a documented tax technology strategy

25%

Do not have a documented tax technology strategy

One of the key accelerators for investment in technology for the Tax function is the level of technology maturity of the Tax Authority. Notably also, most of the respondents indicated that they are eager to adopt tax technology in their tax/finance functions.

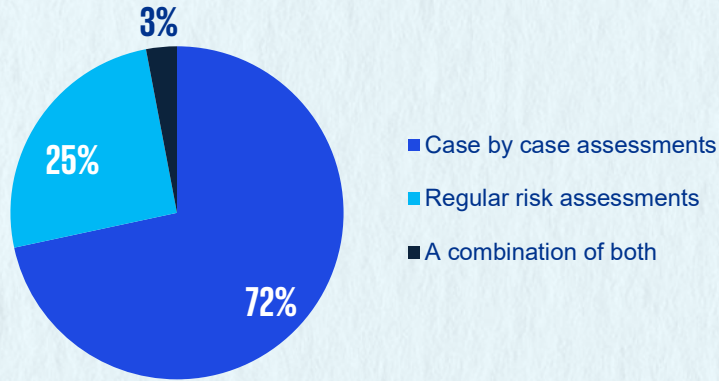
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Inside the Tax Function



Governance and Risk Management

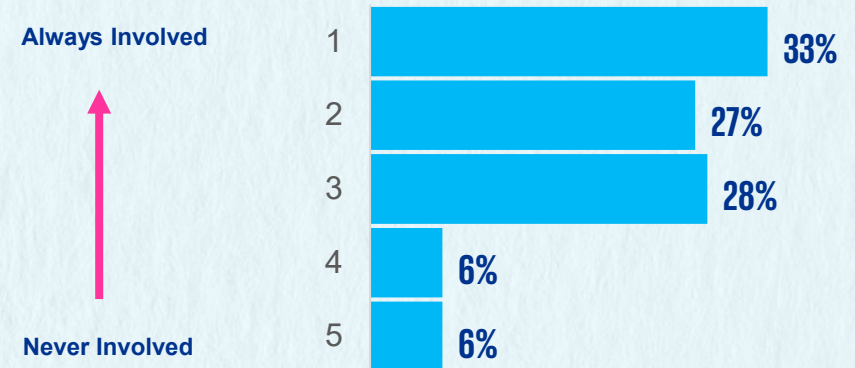
Risk Assessment



For 72% of the respondents, task risks are evaluated only when a tax event occurs while only 25% of the respondents carry out regular tax risk assessments. Companies with revenues over \$100M constitute the majority of those who carry out regular risk assessments (30%) and companies with a revenue of under \$1M are the minority (6%)

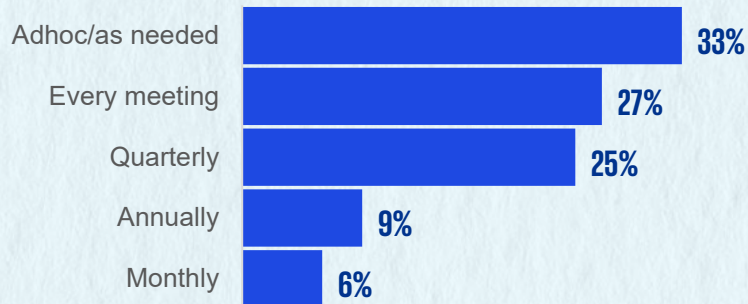
Involvement of the tax department in overall business strategy

Respondents confirmed the involvement of the tax function in the overall business strategy as shown below



Respondents rated their tax department's involvement on a scale of 1 to 5 where 1 represents "Always Involved" and 5 represents "Never Involved"

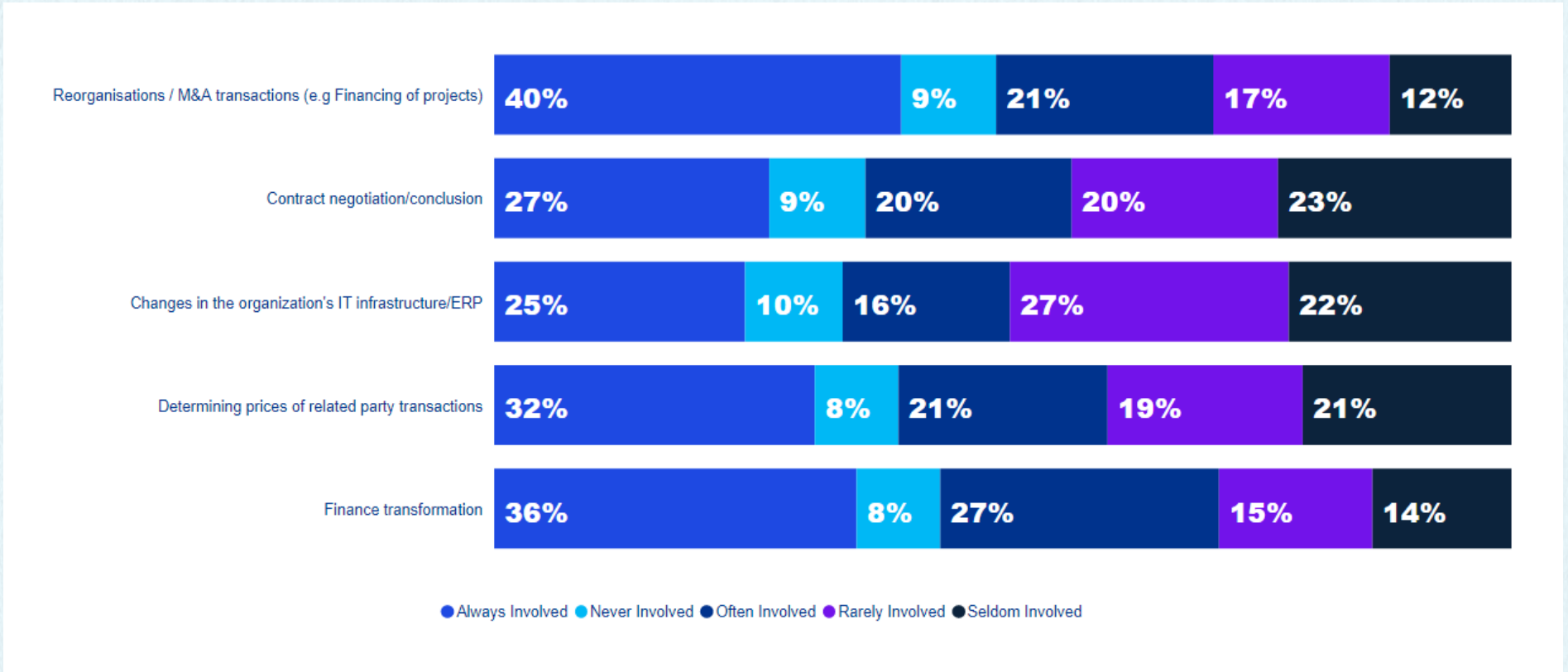
Board Involvement in tax affairs



Most of the respondents have tax on the agenda of every board meeting. In view of the increased financial and reputational costs of noncompliance, companies need to consider the Board's governance over tax affairs as part of overall corporate governance and risk management strategy. Additionally, the Board may mandate the tax leader to provide regular updates on management of tax risk and any potential opportunities identified. This would also set the KPI agenda for the tax function.

Governance and Risk Management

When quizzed about how often the tax function is consulted before the execution of significant projects/transactions, the responses were as shown below. In this light, it is encouraging to see that the tax functions of most respondents surveyed are always/often consulted before the execution of significant projects and transactions.



Governance and Risk Management

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.

Tax authorities, investors, the media and the public are increasingly calling on companies to be more transparent and show they are socially responsible in their policies and approaches to taxation. At the same time, tax leaders are challenged to spot strategic opportunities and partner with the business so taxes are managed effectively and so the data collected for reporting and compliance obligations can, in turn, be used to offer valuable insights for the business.

Survey results show that many companies have recognized and responded to the need to demonstrate strong frameworks for tax governance, risk management and tax responsibility. These frameworks often mandate board-level involvement in tax governance. Most tax leaders say they are well involved in strategic decision-making. However, tax involvement is suggested, but not required, in decisions involving many high-profile risk areas, and some high-profile risk areas may be overlooked.



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.

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Key Considerations

The Board should have visibility over the tax affairs of the Company at all times. The tax governance philosophy of the Company should:

- Derive from the overall business strategy
- Communicate a tax risk policy aligned with the company's overall business risk policy
- Be unambiguous, agreed and supported by the Board
- Clearly outline the company's policy on tax planning and related processes and controls.

By having such a strategy in place:

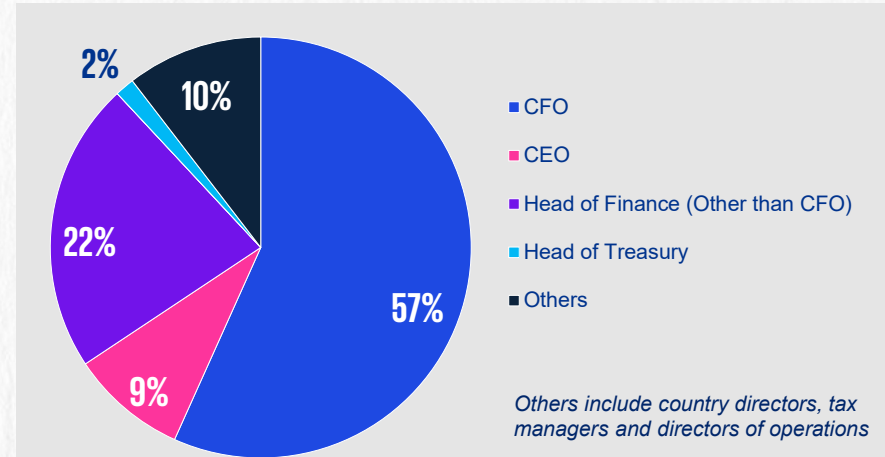
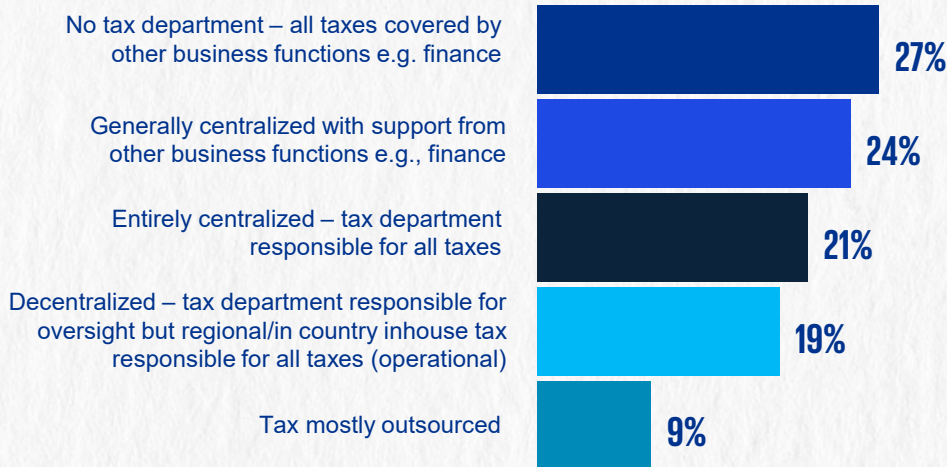
- Investors will be assured that tax is managed consistently in support of business strategy and appetite for risk, and regulators and tax authorities will be assured that tax is managed ethically, with robust processes and controls
- Boards, audit committees and senior management will be assured that the business is not overpaying tax and is meeting its legal obligations.

Organizational Model

The survey results show that, across all industries, tax functions are centralized within the finance function and report to the CFO. However, 1 in 9 Tax Leaders report directly to the CEO. While the current structure may be optimal for some companies, for others, the tax function would have limited capacity to create value beyond regular compliance.

The organizational model considers how the tax function is set up to do what it does. KPMG’s 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 through core tax management skills and proactive collaboration with all parts of the business in advancing the overall objectives.

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.



Key Considerations

- Many companies are moving towards greater centralization of tax resources and activities. Companies may have opportunities to further centralize accountabilities and activities- for example, through greater use of shared service centers or other centralized sourcing models
- Business and tax leaders need to evaluate and select the operating model that aligns to their tax strategy, risk and business needs of the organization
- A detailed cost benefit analysis of each model would be necessary when developing the business case for change

Processes, People and Capabilities

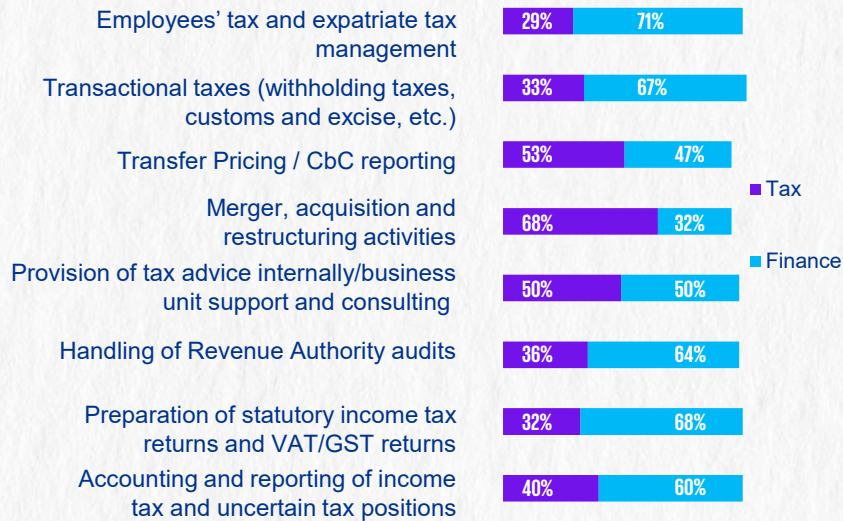
The results of the survey show that 73% of organizations with tax personnel have 1-3 resources, 8% have 4- 7 resources and 19% have more than 7 personnel. The results also show that 58% of companies with revenues of over \$100M have tax functions with less than 4 personnel. Further, nearly all respondents indicated that the typical qualification for personnel in their tax/finance function is an accountant, specifically accountants with a tax specialization.

The survey also showed that most of the responsibilities of the tax function are performed manually. This would limit the ability of the tax function to focus on strategic and value adding opportunities for the business.

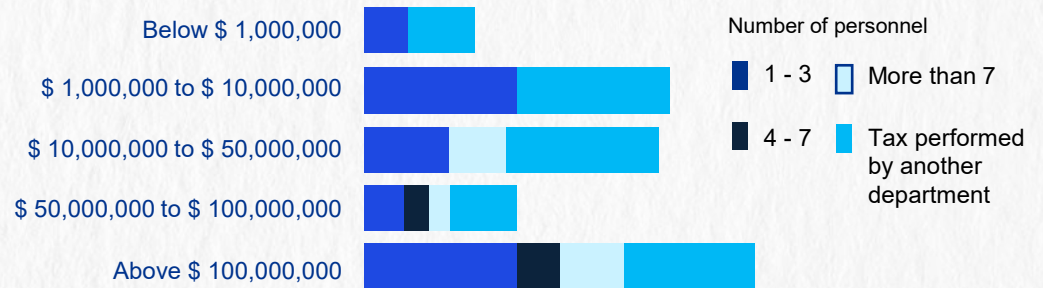
Qualification/skill of personnel in the tax function



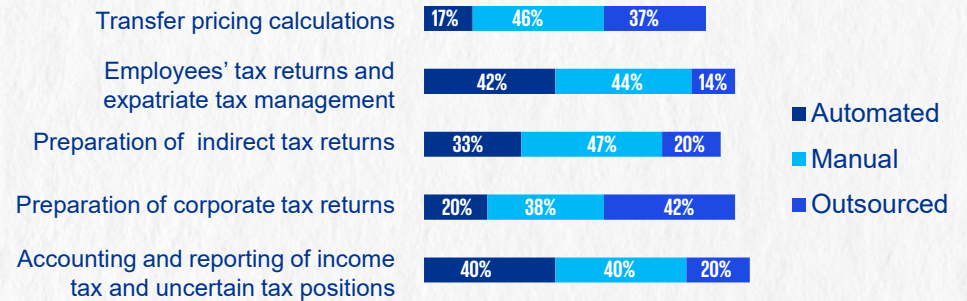
Division of tasks between tax and finance functions



Average size of the tax function across revenue brackets

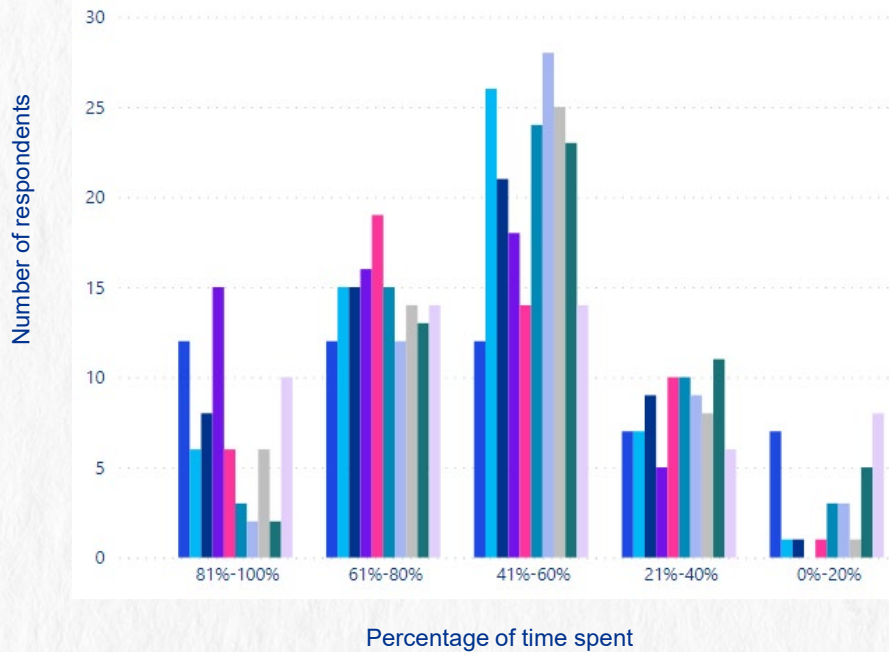


Execution of primary responsibilities

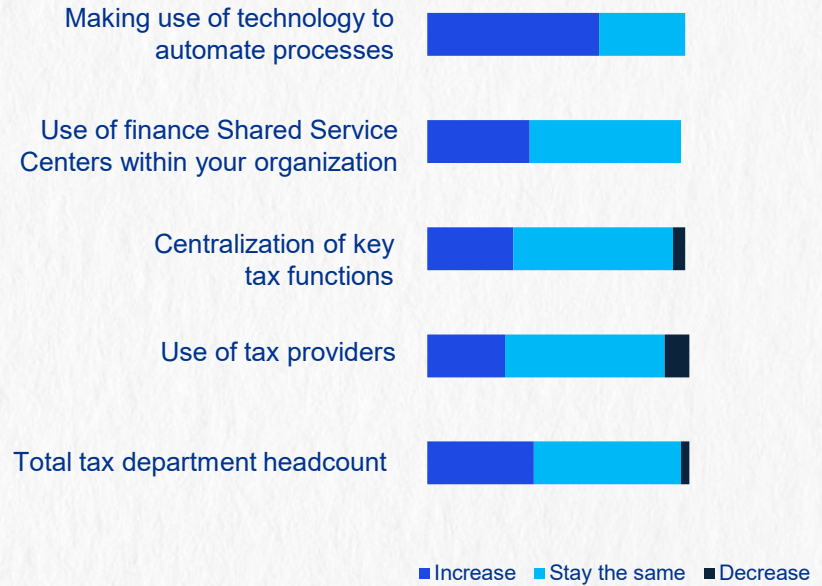


Processes, People and Capabilities

Averagely, personnel in the tax function spend fairly equal amount of available time on each identified task monthly.



When quizzed about how their resource model will look like in the next 3 years, respondents responded that they anticipate the changes below



Tasks

- Merger, acquisition and restructuring activities
- Accounting and reporting of income tax and uncertain tax positions
- Collation and processing of data for preparation of reports/returns
- Controversy and audit defense
- Monitoring of tax compliance across multiple offices, subsidiaries or jurisdictions
- Other transactional taxes (withholding taxes, customs and excise, etc.)
- Preparation of periodic VAT/GST returns
- Preparation of statutory income tax returns
- Provision of tax advice internally/business unit support and consulting
- Transfer Pricing / CbC reporting

Processes, People and Capabilities

People are central to the success of any transformation initiative. The Tax function needs to have the right people to implement the governance, data, technology, organizational model, process and evaluation strategy. Therefore, tax leaders need to take ownership of the people agenda for the Tax function.

Despite the high unemployment rate in the region, tax talent is in limited supply. Therefore, to attract and retain the right talent, the tax leader should develop an effective talent management strategy. The strategy would include the provision of attractive career growth plans, effective training opportunities, and an effective and objective evaluation system. The evaluation metrics should align with the expectation of the Board from the Tax Function and can be used to evaluate the contributions of the Tax Function to the business.

Furthermore, the Tax function of the future would require multiple new skills including; communication, negotiation, data analytics and technology, tax technical and economic analysis. Therefore, the option before the Tax leader is to either equip or acquire the required talent.



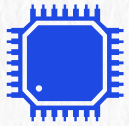
There is no one-size-fits-all in terms of resourcing. Each organization is different. But what we are seeing more and more, is that tax departments are building out their own IT capabilities, whether by equipping tax professionals with technology skills or by teaching technology professionals tax knowledge. Departments may benefit from a combination of both of these approaches.

Key Considerations

- The number of tasks and processes currently being performed manually, and the limited personnel in the Tax function provides a compelling case for automation or outsourcing of compliance activities.
- A detailed workload and process assessment may be required to ensure that responsibilities are properly assigned within the Tax function.
- Additionally, the workload assessment would provide basis for evaluating the optimal delivery model for the Tax function, i.e., whether to continue to centralize, co-source or outsource fully.
- Responsibilities should be allocated to the available resource(s) on a 'best-fit' principle so as to properly manage the people component of the operating model.

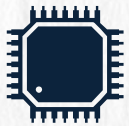
Data and Information

Location of data for tax purposes



28%

Data required for tax analysis is not centralised



72%

Data required for tax analysis is centralised and easily accessible

Quality of data received for tax purposes

26%

Requires significant editing to make it usable for tax purposes

42%

Requires moderate editing to make it usable for tax purposes

32%

Requires little to no editing to make it usable for tax purposes

For 72%

of the respondents, data required for tax purposes is usually obtained from a central source. More often than not, these data requires moderate to significant scrubbing before it can be used for tax purposes.

Additionally, survey results show that over 70% of the organizations use data from their business for both the generation of insights for decision making and for the preparation of tax returns.

Use of data generated for tax

Data received from the business is only used to prepare tax returns/reports

29%

Data received from the business is used to generate insights for decision making and to prepare tax returns

71%

Data and Information

The role and expectation of the Tax function has expanded beyond traditional compliance management to include strategic business support.

The Tax function receives significant information and data from all areas of the business and can transform the data into valuable business insights. However, the quality of the insights produced is directly proportional to the quality of the data received. The features of quality data include accuracy, completeness, consistency, recency, availability and security.

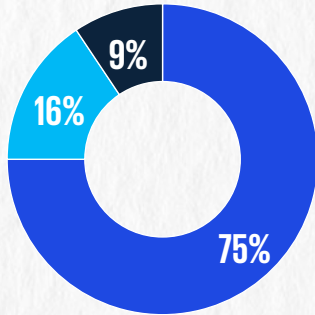
Therefore, data and information received by the Tax function should be assessed for these qualities before it is used for analysis. Also, the availability of quality data would eliminate or reduce the significant time spent by the Tax function cleaning or processing data for tax returns preparation.

In addition to quality of data, the Tax function should have the capability to analyze and process the data to generate useful insights. This will simplify and accelerate the process of identifying tax risk and opportunities. Therefore, the Tax function would need to acquire skills in business and big data analytics.

Key Considerations

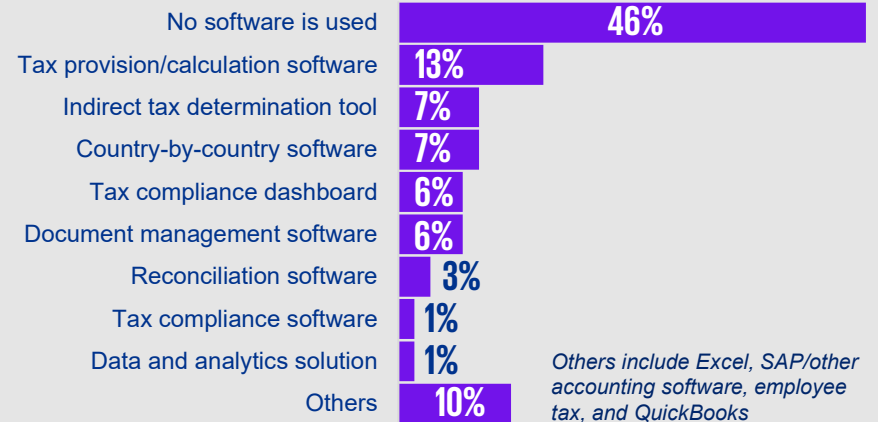
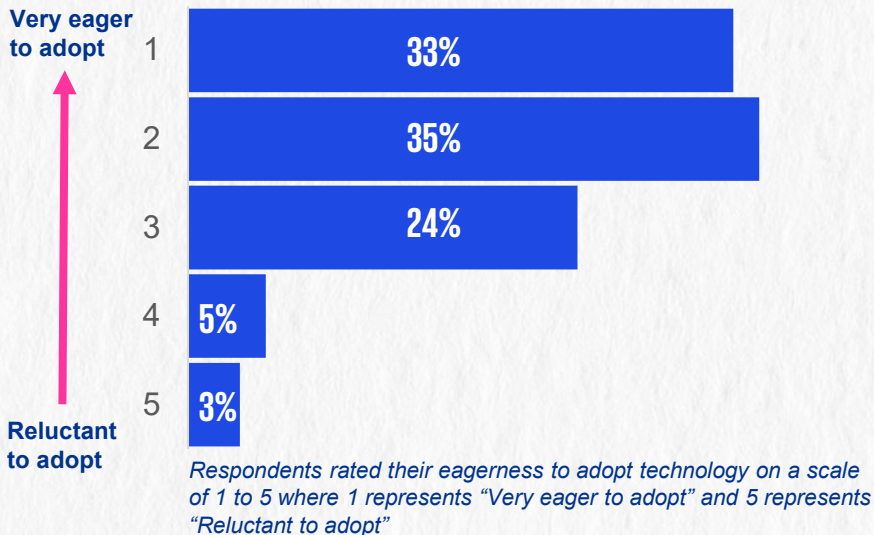
- With automation, companies can eliminate the manual collation and processing/cleansing of data/ information received.
- While many ERPs are enabled to provide the data required for preparation of tax returns, few of them have built-in data analytics capabilities. Therefore, the Tax function should consider the acquisition of data analytics tools and skills to support predictive, diagnostic and prescriptive analytics.
- In view of the tax authorities' plan to implement technology for real time transaction data collection, tax leaders, in conjunction with their IT team, should perform a review of the tax rules and codes in the ERP and financial systems to ensure quality of the data being extracted by their local tax authorities
- Technology changes to systems that supply tax data are expected to increase in the following areas:
 - Overall leverage of enterprise finance IT systems for tax purposes
 - Use of consolidation system data for tax purposes
 - Understanding of tax data needs by IT resources
 - Investment in tax-specific technologies
 - Use of tax data warehouses and tax sensitization of G/L and other accounts (tied results)
 - Tax sensitization of business forecasting systems.

Systems and Technology



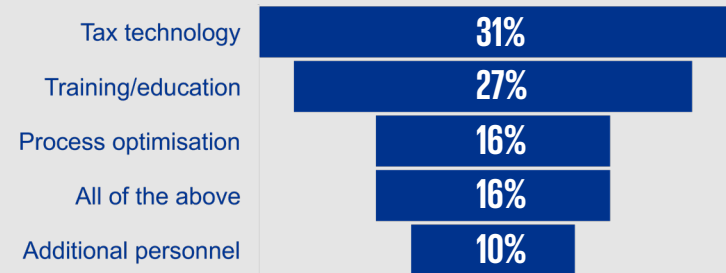
75% of the respondents say their company has a documented tax technology strategy, 16% of the respondents do not have a documented tax technology strategy, while 9% of the respondents noted that a tax technology strategy document was not applicable to their organization

Notably also, most of the respondents indicated that they are eager to adopt tax technology in their tax/finance functions.



Most of the survey's respondents (43%) indicated that their companies do not use any software in their tax function. Further, 24% of companies that earn over \$100M do not use any tax technology tool. However, it is encouraging that when quizzed about their investment priorities for the tax function, most companies indicated that tax technology is their first priority.

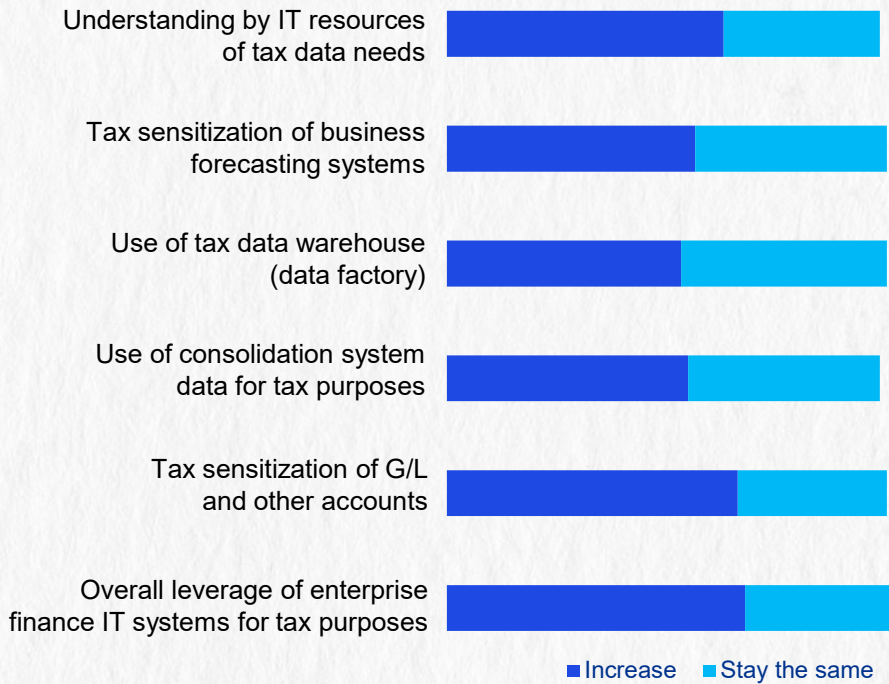
Tax function investment priorities



Systems and Technology

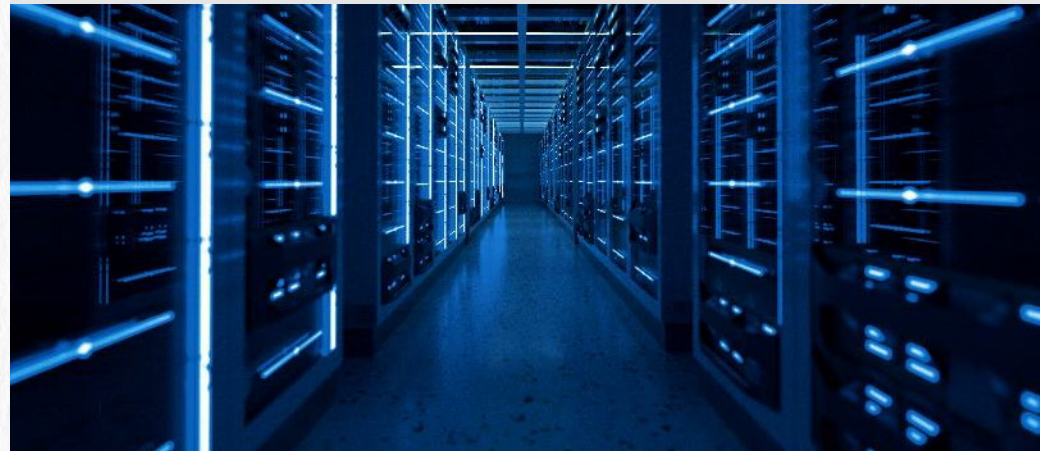
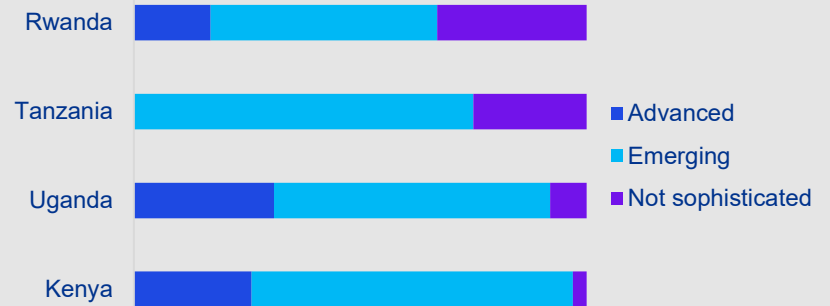
Most of the respondents think that technology adoption in the tax function is not at par with the other areas of the business. As such, they anticipate that the adoption of technology in the tax function will increase over the next 3 years.

Anticipated change in tax technology over the next 3 years



One accelerator of investment in tax technology is the level technology maturity of the tax authorities. The more advanced the tax authority, the more compelling the business case for investment in tax technology. The results from the survey show that most companies rated their local tax authorities' technology sophistication as emerging.

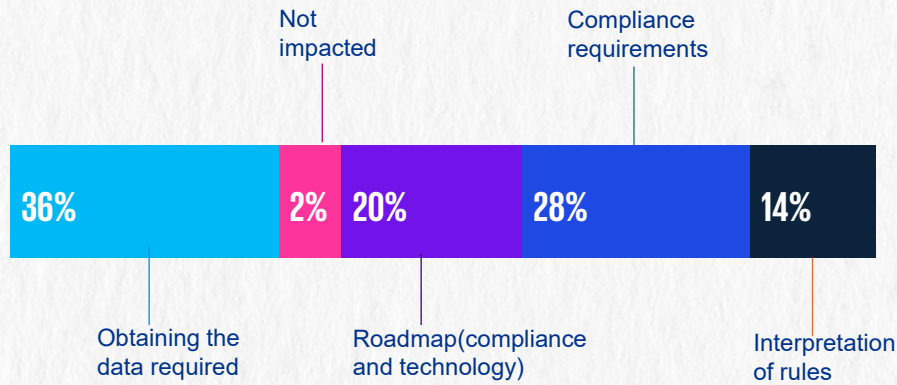
Tax Authorities Tech Sophistication Evaluation



Systems and Technology

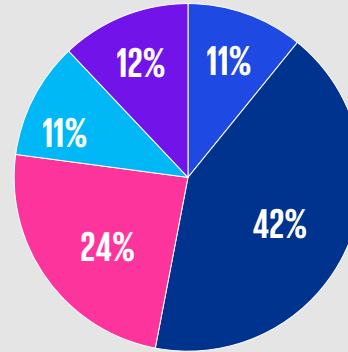
In a survey by KPMG Global, respondents were asked about the key global, regulatory, and business disruptors that most affect businesses and their tax teams. 46% of the respondents said that Global Tax Reform, including Base Erosion Profit Shifting (BEPS 2.0), was the biggest business disruptor for their businesses, while 30% said that technology advancements like cloud ERP systems had the biggest impact. Budgetary constraints, ESG requirements, and changing labor trends were also mentioned as disruptors.

Further, respondents' highest priority with BEPS were as follows:



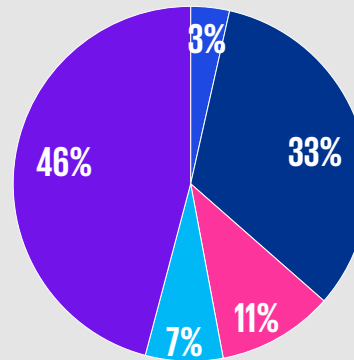
When it comes to responding to changes in the regulatory landscape, the vast majority of tax functions around the world take the band-aid approach (reacting to issues as they occur), and only 10% of the respondents said they have a comprehensive plan in place for tax reform. While their tax functions are aware of the changing regulatory landscape, according to 24% of the respondents, they have not yet made any changes in response.

The global survey also quizzed respondents on what they believed to be their biggest challenge in the adoption of e-invoicing and the results were as shown below;



- Data quality and availability
- ERP and e-invoicing solutions; not one size fits all
- How to manage the differences between country requirements
- Need for government software, hardware, portal linkages, or certified providers
- Tax process disconnected from commercial invoicing

Below is an illustration of how prepared businesses are, globally, to respond to new regulatory changes in a short period of time.



- Comfortable that our systems are robust enough to react to change
- We are not ready but addressing this internally
- We are not ready but going to partner with a third party
- We don't have the budget for this
- We have some work to do but have no real concerns

Systems and Technology



A technology enabled Tax function can leverage insights and process solutions to deliver value to the business.

The adoption of technology in the Tax function should be targeted at specific needs. But the process of transforming the Tax function technologically should be done incrementally. It requires careful planning and many iterative steps to arrive at the desired state. Despite the obvious benefits of technology adoption, getting investment for tax technology solutions can be a challenge.

Investment in technology solutions (including tax technology) requires a persuasive business case. The more advanced the tax authority, the more compelling the business case for investment in tax technology. This means that the drive by tax authorities to automate tax administration should provide a compelling business case for investment in tax technology by companies.

Above all, any technology transformation requires the concurrent implementation of a training and change management program for users of the solution, to ensure its success.

Key Considerations

- The tax strategy and tax policy documents should include the adoption of technology for efficiency and for the identification and management of opportunities and risks.
- When building the business case for investment in tax technology, it may be important to align the impact of the technology with the organization's overall objectives. These objectives could include improved risk identification and management, efficiency gains, realization of tax savings and responding to technology developments made by the tax authorities.
- Considering the disparate adoption of technology across the business, the Tax function would have to collaborate with other functions to leverage their use of technology whilst seeking to drive its own technology initiatives.

04

Next Steps



Next Steps



Investing in Transformation

Across the KPMG organization, we are investing US\$5 billion over five years in technology, people and innovation to accelerate the digital transformation of KPMG firms and our clients, with more than US\$1 billion being invested in tax & legal technology specifically through that period.

Every company is unique. Every tax function is too. A bespoke KPMG Tax Reimagined workshop gives you the opportunity to imagine the model that works for you then brings it to life. Our rapid diagnostics and wealth of benchmarking data can take you from dreaming of the possible to the foundations of a tangible business case in less time than you think.

Continue the conversation by contacting us. Together, let's prepare to meet the future of tax.

05

**Tax
Reimagined**



Tax Reimagined

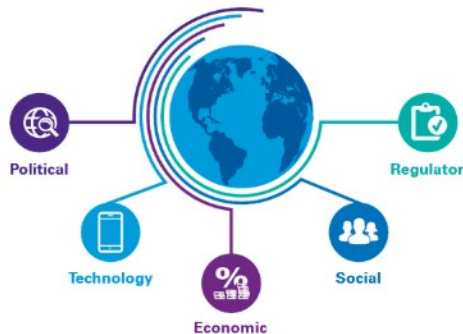
Tax is changing. We're changing Tax.

There is no shortage of challenges and opportunities facing today's tax functions. Carrying on as in the past is not a viable option. You need to be ready to be compliant and ready for the changing digital future of tomorrow. Tax is your license to do business. Tax Reimagined is the discussion you need to have now.

The challenge

The volume and pace of change in the tax environment is unprecedented. Complex and uncertain times need different tools and skills to manage the business of tax. Yet, investment has lagged behind. Your workload has increased while your resources have diminished. You need to not only be compliant today but ready for the digital world of tomorrow. Meanwhile the business continues to demand tax support. What's the answer?

Global trends disrupting the tax function



The opportunity

At KPMG we have combined our technology, transformation and compliance capabilities under a new framework — Tax Reimagined. Deploying our solution architects and leveraging this framework, we can help you develop a strategy for your tax function and design a target operating model to help ensure execution; reduce costs, improve quality and unlock value from your tax and statutory function.

These days, tax makes headlines. This is the impetus to shift the conversation, to lay the foundation of an irresistible business case for investment in tax infrastructure. This takes the form of new tax operating models, technology tools and capabilities which are more adaptable and configurable to tax needs and flexible new ways of approaching sourcing. For example, large scale finance transformation projects and disruptors like emerging technologies means tax functions need new ways of working which, in turn, can also embed continuous improvement for sustainable change.

KPMG's approach to developing a target operating model



Tax Reimagined in practice

KPMG's Tax Reimagined solution architects collaborate with you to bring tax expertise, a deep understanding of technology and innovative operating model designs to work alongside you to reimagine your tax function. This will involve designing a target operating model that combines transformation, with the right blend of managed services and technology to help the gears of your business work together to accomplish your goals.





06

Resources and Contacts

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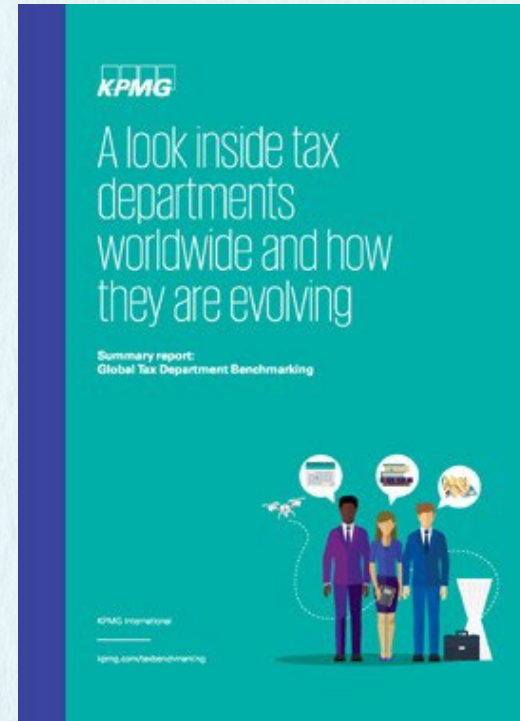
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= modifier_ob  
b)) # modifier ob is the active ob
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ts[0]  
ts = 8
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Resources

For further information and resources, please explore the [links below](#) or visit kpmg.com/tax. You might also consider attending an upcoming Tax Reimagined webcast designed to address issues related to the transformation of the Tax function to tax leaders ([Link](#))

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.



Click the documents
to read more





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