



cutting through complexity

Chief Tax Officer outlook

Top-of-mind issues facing tax
leaders today – global edition

July 2015

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Never before has the tax department played such an integral role in the success of the business. All round the world, Chief Tax Officers (CTOs) are expected to align tax with business goals, drive strategic value, increase transparency, and improve the efficiency of tax operations. This publication is designed to highlight top-of-mind issues for tax executives and review some of the ways CTOs are addressing these opportunities and challenges, offering fresh ideas and practical and actionable insights to help CTOs demonstrate the value tax departments bring to organizations.

Five global tax issues covered in this edition:¹

- 1 The impact of BEPS
- 2 Building the business case for tax transformation
- 3 Pros and cons of a shared services model
- 4 Effectively communicating with senior management
- 5 Talent management approaches for tax

¹ This report was first published as 'Chief Tax Officer Insights' by KPMG LLP in the US, a limited liability partner and the US member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"). In its current form, the report has been expanded upon to provide a global context and address audiences in addition to those in the US. As with the original report, the information throughout is based on discussions between KPMG professionals and CTOs, as well as with government contacts.

The **impact** of BEPS



CTOs have been closely monitoring the series of releases from the Organisation for Economic Co-operation and Development (OECD) in connection with its Action Plan on Base Erosion and Profit Shifting (BEPS), including the Guidance on Transfer Pricing Documentation and Country-by-Country (CbyC) reporting.

The OECD's BEPS initiative presents significant implications for tax compliance and reporting functions, transfer pricing policies and oversight, tax audits and controversies, and reputational risk. In particular, the CbyC reporting requirements present administrative burdens that would fall to CTOs who need to ensure the ability of their current systems to gather the information required for CbyC reporting compliance. Although the OECD guidance on CbyC reporting generally has been in line with business community expectations, additional concerns arise regarding the use and confidentiality of the information disclosed. Other areas of continuing focus for CTOs include the OECD's guidance on hybrid mismatch arrangements, permanent establishments, and transfer pricing for intangibles. CTOs will need to evaluate the implications of the CbyC report for the viability of their tax structures and consider the risk of increased audit scrutiny or controversy, particularly regarding transfer pricing practices. Many CTOs have already started to "stress test" their current systems and processes to evaluate the potential impacts.

Jurisdictions around the world are approaching the coming changes differently. In Europe, most governments have expressed their commitment to addressing BEPS. They are eager to help shape, refine and ultimately adopt the recommendations in the OECD Action Plan. In fact, some governments have made moves already to change their tax codes in anticipation of the coming recommendations. Others are waiting for more information to emerge from deliberations at the OECD.

Countries in the Americas fall on a spectrum that runs from full participation to non-engagement. At one extreme, countries that are both G20 and OECD members — Canada, Mexico and the US — are highly engaged and making their views known, as BEPS proposals take shape. Some G20 countries, such as Brazil, are engaging in the OECD discussions, but are weighing in selectively. Many of the Caribbean countries that are perceived as tax havens, such as Barbados, are watching the project unfold on the sidelines to determine how changing international tax principles will affect their tax regimes.

In the Asia Pacific region, China has taken a particularly active role in the various OECD working party meetings. In addition, Australia has been very involved in the discussion given its role as president of the G20 during the 2014 year, and its desire to see real progress on BEPS during the period of its tenure. With a Japanese Ministry of Finance official currently in place as chair of the OECD Committee on Fiscal Affairs, Japan is also highly invested in the BEPS Action Plan's successful outcome. Along the middle of the spectrum, countries such as India and Indonesia are engaging in the OECD discussions, but might end-up implementing only those aspects of the BEPS proposals that suit their domestic purposes.

Questions to consider

- What are you doing to prepare for CbyC reporting and other transfer pricing documentation requirements including the master file?
- Are there aspects of your international tax structure that should be modified in light of BEPS developments?
- What reputational and business risks may arise if your CbyC report were made public?
- Do you have an internal governance strategy including, for example, a tax code of conduct or other internal controls?
- Do you have an effective communication plan with various stakeholders (including the Board, C-suite, customers, investors, and employees) regarding BEPS impacts?



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Building the **business case** for tax transformation

One key responsibility for CTOs is managing the effectiveness, responsiveness, and scalability of their organization's tax function and supporting technologies. This includes assessing whether the tools in place can successfully:

- meet the needs of potential growth or reorganization
- enable the organization to react to regulatory and compliance changes
- add value to the organization overall.

While the transformation of a tax function spans many areas including technology, outsourcing, shared service centers, and talent development, CTOs generally agree that a successful transformation project needs an objective, a clear strategy, and a defined process. Aligning staff to the right roles within the process is critical to a successful transformation, as is the continuous evaluation of new technologies and perspectives.

Provision tools continue to provide opportunities for CTOs to enhance tax functionality. The ability for these tools to integrate with existing Enterprise Resource Planning (ERP) systems is a key differentiator. In addition to tools that enhance compliance and provision related processes, many CTOs are focused on enhancing the connectivity of teams, particularly when connecting offices in remote locations.

Building the business case for transformative technology is often a hurdle for CTOs. One strategy is the introduction of dedicated tax technology personnel, or 'tax technologists.' While CTOs previously hesitated to hire or assign an employee to a technology role, due to developmental concerns, this position is becoming more valued and compensation is increasing accordingly. When finding a person to fill this role, CTOs may tend to favor 'tech-savvy' tax candidates, rather than candidates with technology skills who may be lacking a tax background.

When making a business case to senior leadership to support a business transformation project, CTOs may want to demonstrate how the initiative fits with the bigger picture of the organization. One way to do this is to show the alignment between the organization's business strategy, the existing tax structure, and the ways the transformation initiative can support the overall strategy.

Questions to consider

- How do you stay on top of new technologies and trends in tax and tax governance?
- Have you implemented or considered implementing provision technology?
- What are the key factors you use to make the business case for an investment in tax technology to senior leadership?
- Do you have dedicated tax technology resources on your team?





Pros and cons of a shared services model

Questions to consider

- Has the tax and/or finance department moved to a shared service, low-cost environment or an outsourced model?
- What do you perceive to be the benefits and risks of low-cost environment arrangements?



The tax profession continues to debate the benefits of a shared services model as opposed to the centralization of the tax function. From functionality and operational risks to cost efficiency considerations, CTOs have much to consider, and options will vary depending on the business objectives of the organization. Many CTOs remain interested in tax work migrating to low-cost jurisdictions in an effort to streamline operations and reduce costs; however, many are concerned with risk and connectivity under this type of arrangement.

Others argue that moving tax operations to a central location can increase connectivity with the finance department, if there is close proximity of tax and finance operations in these locations. Many CTOs agree that tax departments rarely initiate the charge in moving to shared services models, but instead, they follow the lead of the finance department and offer a voice on the tax opportunities and challenges on either side of the debate.

When it comes to preferred practices for executing low-cost service centers, some CTOs prefer an internal shared services model while others promote outsourced operations. Regardless of the approach taken, there is generally a strong consensus that detailed service-level agreements are necessary for success.

Effectively communicating with senior management



While effective communication within an organization is critical to success, it is not always easy to achieve. To help get the right message to the right audience, it is critical to define early on the appropriate audience, approach, and cadence for the issues at hand. The vast majority of CTOs report to the CFO in their organizations; however, some report to the treasurer, controller, or chief accounting officer. CTOs may find themselves responsible for more messaging overall, both upwardly to the CFO and leadership team, and generally within the organization.

One practice among CTOs is for communication with senior management to take place on a weekly or bi-weekly basis. CTOs can consider a variety of approaches to conducting these communications and achieving the intended objectives. Some CTOs succeed with less formal arrangements and limited documentation, while others prefer to have a set agenda with standing topics, such as metrics and forecasts in a standard report that they can use to compare against previous periods. Others prefer a reporting dashboard with essential key performance indicators.

When communicating variability to business units, CTOs may be best served to differentiate between a 'tax issue' and a 'tax consequence.' Making the distinction between a tax issue and a business issue that brings a tax consequence can help CTOs immensely with effective messaging.

The frequency of CTO engagement with an audit committee varies. Some actively seek to have a defined role in meetings, while others prefer to engage only when required. As a general trend, the activity level of CTOs in audit committees, finance committees, and board meetings continues to rise.

Questions to consider

- How often do you meet with the CFO and other senior leadership? Is it sufficient?
- Do you have a formal scorecard or dashboard to convey departmental metrics?
- Can you effectively articulate the difference between 'tax issues' and business issues with a 'tax consequence?'



Talent management approaches for tax

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Questions to consider

- How do you develop internal talent and foster career development?
- How do you decide whether to look internally or externally to fill positions?



Hiring at the senior level can present challenges to CTOs, specifically in terms of the evaluation, hiring, and integration process, as well as managing internal sensitivities when an external candidate is hired. Managing the career paths of existing talent requires continuous attention. As many organizations see some basic tax work moved out of the core tax department, development opportunities for staff may decrease, and CTOs are left to respond. Some CTOs find success with rotational assignments outside of tax, while others are less favorable to these arrangements.

When planning for succession, finding a replacement with the right balance of technical, leadership, and communication skills is critical. Leadership qualities are often the most sought-after, and yet these can be the most difficult skills to find, especially because 'soft skills' and partnering abilities are more difficult to teach than technical capabilities, which can be learned or attained with the support of advisers.



Resources and more information



For further information and resources, please explore the links or visit kpmg.com/tax. You might also consider attending an upcoming webcast or event designed to address issues of interest to CTOs. 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.



Automatic Exchange of Information: The Common Reporting Standard



BEPS Action Plan – Ready or not?



Frontiers in Tax



Global Tax App



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