HIGHLIGHTS FROM THE 2015 KPMG GLOBAL BENCHMARK ON INDIRECT TAX AND TRADE COMPLIANCE

Indirect tax

A LACK OF METRICS CAN UNDERMINE PERFORMANCE

Measurement drives performance and informs leadership of the effectiveness of the indirect tax function. It is, therefore, some cause for concern that only **25 percent of all the respondents say their company has specific metrics,** most of which relate to basic compliance, rather than activities that could improve the bottom line and cash flow.

MORE GLOBAL HEADS INDICATE THE RISING IMPORTANCE OF INDIRECT TAX

The proportion of respondents with a Global Head of Indirect Tax has risen to 38 percent, and to 68 percent for larger businesses, most of which are based in Europe and the US. Regional heads are now gaining greater coverage of Asia Pacific and Latin America, to meet the growing need for visibility and oversight in these complex and diverse regions.

INDIRECT TAX TEAMS REMAIN FOCUSED ON COMPLIANCE

With almost one-third of their time devoted to tax returns, many indirect tax professionals are still mired in operational compliance, rather than strategic activities. Indeed, the proportion of the working day spent on tax planning has actually come down since 2012. Larger businesses, which have invested more in automation and data analysis appear to have a greater focus on value-adding activities.

TAX MAY BE TAKING OWNERSHIP OF INDIRECT TAX – BUT IS THERE SUFFICIENT VISIBILITY?

The proportion of **indirect tax teams reporting into Tax has risen from 41 percent in 2011 to 52 percent in 2015.** Although visibility over indirect tax activities has also increased significantly over the same period, this is restricted by the lack of global heads and performance metrics.

CENTRALIZATION IS INCREASING

In all regions, respondents indicate that while local management of compliance remains the predominant compliance model, **the centralized preparation of tax returns is expected to become more common** in the next three years, with a modest increase in outsourcing. The trend toward central filing is particularly significant for larger businesses.

RISK MANAGEMENT DOES NOT APPEAR TO BE RISING

Respondents from Europe, Middle East and Africa and Asia Pacific appear far more confident in their organizations' ability to identify key indirect tax risks that could impact cash flow, compared to peers in North America and Latin America. **Perhaps of greater concern, key risk identification levels have come down since the 2013 survey.** The quality of risk management could be further impaired by the low levels of independent assurance practiced by most respondents, with many preferring self-assessment.

TECHNOLOGY IS THE KEY INVESTMENT PRIORITY

With tax submissions becoming increasingly automated, and companies looking to enhance their data analysis, it's no real surprise that **67 percent of respondents say they plan to invest in technology to improve indirect tax management.** The use of data analytics and tax engines is expected to show a huge increase by 2018.

Source: 2015 Global Benchmark Survey on indirect Tax and Trade Compliance, KPMG International 2015

Trade compliance

LIMITED PERFORMANCE MEASUREMENT LIMITS VISIBILITY TO VALUE ADDED

Just 38 percent of the trade compliance professionals taking part in our survey say their companies employ metrics to measure effectiveness, which limits management's ability to assess the value they add. The main measures are timely and accurate submission of import and export declarations, and clearance times for imported goods, with less emphasis upon efficiency and cost savings.

GROWING TREND FOR GLOBAL LEADERSHIP

Fifty-six percent of respondents have a Global Head of Trade Compliance, with the majority of these individuals based in the US, where regulations are most evolved. These heads appear to have good visibility over duty costs by country. The larger organizations involved in the survey typically have integrated, automated systems to support their global trade efforts, while others place more reliance on trading partners.

REPORTING LINES INDICATE FOCUS ON REGULATORY GOVERNANCE

Across the survey, **more trade compliance teams report into Finance than into any other function, although in larger businesses, they are more likely to answer to Tax.** Only 17 percent report into Supply Chain/Logistics departments, showing a move towards reporting into centralized functions that tend to be more regulatory focused.

RISK IDENTIFICATION AND ASSESSMENT LACKING

A significant proportion of respondents in each region have not identified the key trade compliance risks facing their companies, particularly in Latin America. When it comes to assuring these risks, the larger companies in the survey choose independent assurance, while the rest are still using internal self-assessment.

A GRADUAL MOVE TOWARDS A CENTRALIZED BUSINESS MODEL

The responses are indicative of the variety of organizational structures for trade compliance, with a combination of centralization, decentralization and use of outsourced third parties. **Centralization is expected to rise in the years to 2018, becoming the dominant model, accompanied by an increase in outsourcing.**

TECHNOLOGY SEEN AS KEY AREA FOR FUTURE INVESTMENT

Almost 30 percent of respondents use no automated global trade solution, which will inevitably restrict the speed and accuracy of the function. A significant proportion also lack functionality to screen suppliers/buyers and classify products, leaving them open to errors, and susceptible to trade with forbidden parties. As with the indirect tax results, the key area for investment is data analytics, to help improve compliance and save costs.

Source: 2015 Global Benchmark Survey on indirect Tax and Trade Compliance, KPMG International 2015