Chief Tax Officer Outlook

Top-of-mind issues for tax leaders – global edition

February 2016

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Never before has the tax department played such an integral role in the success of the business. All around the world, Chief Tax Officers (CTOs) and tax leaders 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 they are addressing these opportunities and challenges, offering fresh ideas and practical and actionable insights to help tax leaders demonstrate the value tax departments bring to organizations.

Topics addressed in this edition[1]

- **How technology is changing the tax department**
- **Aligning resources to respond to BEPS**
- **Elevated external auditor scrutiny**
- **US corporate tax reform**
- **Evolving tax operations for the present and the future**

[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.

How technology is changing the tax department

Expectations continue to rise for tax departments to operate more efficiently while integrating better with the business and providing more strategic value. Tax leaders continue to focus on identifying opportunities for process improvements that can, in part, be achieved through technology and automation. By combining tax technical knowledge with large sets of data and new technology tools to generate insights, many tax leaders are leveraging data and analytics to help their organizations make smarter, real-time decisions. To improve their departmental processes through technology, tax leaders need connectivity to senior management, alignment with the IT function, awareness of the solutions that are available, and technology-savvy professionals in their tax departments.

Tax leaders recognize that investing in technology has become fundamental to improved performance and many are in the midst of major tax and finance transformations. Building the business case for tax technology investments can be challenging; however, many tax departments have successfully gained leadership buy-in for technology investments by emphasizing the promise of improved controls. A reduction in the number of controls may also assist with the organization's relationship with their external auditor, who now asks for more formal documentation of processes. Tax leaders also believe that securing support for technology investments tends to be successful with proposals that contain clear operating expense reductions, and/or clear alignment with the wider business strategy.

Integrating the tax department with IT is also crucial in defining what is possible regarding process improvements and in identifying automation potential. A key component to success in working with IT is to find technology that integrates with existing ERP systems and enhances compliance and provision processes. Some tax leaders have found success with adding a dedicated technology resource or resources to the tax function, while others have struggled with a dedicated resource and have had greater success with resources loaned from the IT department. Regardless of the specific model, most tax leaders agree that having a "technology leader" in the tax department who advises how technology feeds into departmental strategy is a growing trend.

While many tax leaders still report a heavy reliance on Microsoft Excel based solutions for financial reporting, others rely on an ERP system, and there is generally a strong desire to move to more sophisticated solutions that can deliver greater value within the tax function and to the broader business. Tax leaders generally agree that technology needs to put leaders in control of tax processes, help reveal tax issues and uncover the insights to be found in an organization's data in ways that will help tax leaders to adapt—not only to comply quickly with the changing tax landscape, but also to evolve their tax functions and come out even stronger.

Questions to consider

- How recently have you assessed your technology platform?
- Are you connected to the IT department to ensure tax needs are being considered?
- Are you aware of the various tax technology solutions available?

Aligning resources to respond to BEPS

The OECD's Action Plan on Base Erosion and Profit Shifting (BEPS) presents significant implications for tax compliance and reporting functions, transfer pricing policies and oversight, tax audits and controversies, and reputational risk. In particular, uncertainty exists among tax leaders regarding internal accountability for country-by-country (CbyC) reporting. While some agree that the finance department will be involved in providing data, there is general consensus that the ultimate responsibility will likely fall on tax.

Under the current timeline for reporting, changes to structures can still be made this year. As a result, many tax departments are assessing structures for weaknesses as well as testing data for anomalies. They are preparing information that would explain and support data, and researching alternatives that may readily implemented.

Many tax leaders are anxious to ensure that the data supplied under CbyC reporting will be kept confidential. In addition, some are concerned that taxing authorities may pick and choose circumstantial data and ratios, such as revenue per employee, and potentially use them to justify aggressive audit behavior.

While the potential resource burden presented by CbyC reporting is generally expected to be felt more strongly on the controversy side than in relation to actual compliance obligations, many leaders are unsure of the timing of this impact. The general feeling is that countries may initially be overwhelmed by the amount of data provided.

As global controversy audit risks increase, tax leaders are thinking about the future state of resources in the tax department. As recently as 3 years ago, a tax department could spend approximately 80 percent of their time supporting the business and 20 percent on controversy. Today, some tax departments find those numbers are reversed. As a result, many are looking to ensure that new structures are able to withstand the tumultuous nature of the modern tax environment. Furthermore, many tax leaders indicate that keeping senior management informed on the changing environment for tax planning is an important effort.

Questions to consider

- How are you messaging OECD initiatives with your senior leadership, audit committee, and board?
- How significantly are you altering your international tax planning as a result of BEPS?

Elevated external auditor scrutiny

In many jurisdictions, external auditors are asking tax departments for more formal documentation of internal controls. Some tax leaders are frustrated with trying to reconcile the new and differing materiality standards for income statements and balance sheets. External auditors are also asking more questions about the summary of adjustments report on items that had been agreed to in the past, as well as other unexpected issues over items that had previously caused no problems.

These demands have led to increased pressure on tax department resources and a more strained relationship with external and internal auditors. The new focus on controls has also forced tax departments to streamline their processes, with some reducing documentation by nearly half through identification of redundant controls. In addition, many tax leaders agree that audit firms are now requiring more supporting documents, including internal strategy documents and other written support of management assertions.

Questions to consider

- Have your number of internal controls increased over the last year?
- Do you have technology in place as a control during the collection, analysis, and reporting of relevant data?

US corporate tax reform

Regardless of their headquartered location, many tax leaders continue to monitor the potential for US tax reform and seek to inform and influence any potential changes, whether incremental or comprehensive. Broad frustration exists that politics, personalities, and timing seem to be blocking attempts at reform. While comprehensive reform seems unlikely in the next year, limited scope reform remains a possibility in 2016, especially in the area of international taxation. Some tax leaders are focused on the fact that even if reform is not imminent, the concepts that will ultimately shape a major overhaul of corporate tax rates and rules are continuing to be developed. To prepare for the potential changes, some tax departments have spent a great deal of time modeling, while others believe that any modeling could be a wasted effort with so much uncertainty.

A majority of tax leaders seem to favor comprehensive reform. Their concern is that a total tax code "rewrite" is such a difficult task for legislators that nothing significant will happen in the near term. As a result, in the interim, US Congress may need to raise revenues and enact piecemeal reform, including revenue-raising provisions, in place of a larger negotiation.

Many tax leaders struggle to keep key corporate stakeholders informed of the twists and turns of reform, but with the stakes very high, most leaders feel the need to keep key players aware of potential changes. At the same time, some are reporting management and board fatigue on the subject.

Questions to consider

- How are your peers preparing for potential reform?
- Have you initiated scenario planning around the potential impact of reform?
- Are you effectively communicating to senior management on potential changes?

Evolving tax operations for the present and the future

Today, tax departments of multinational organizations face unprecedented pressure from inside and outside forces. From disruptive technological advancements to rapidly evolving regulations to talent gaps and more, a stagnant, conventional tax department is no longer adequate for today's tax realities.

As these factors evolve, three key themes emerge as integral to tax departments' efforts to keep pace, meet regulatory compliance obligations and demonstrate value within their organizations and beyond.

1. Maintaining open dialogue internally and externally

In today's politically charged and rapidly changing tax landscape, there has perhaps never been more need for knowledge exchange and discourse amongst tax leaders of multinationals, their advisors, revenue authorities, and businesses at large.

There is a general trend amongst tax leaders toward embracing the role of the organization as contributors to society, building stronger relationships with tax authorities and harnessing the power of technology in order to better show the value of the tax department within the organization.

2. Incorporating technology to help tax emerge as a value center

Most tax leaders cite technology and data analytics as critical in helping organizations transform their tax operation to account for the regulatory change, inter-jurisdictional transparency, and new reporting requirements that characterize the new world order for tax.

A majority of leaders express interest in increasing the time their departments spend on value-adding work, such as optimization of processes, rather than on simply maintaining compliance activities and administrative responsibilities. Many see technology as key to balancing that scale.

3. Staying nimble and adaptable for the future

Above all, many tax leaders emphasize the need to ensure that whatever structural changes they make to their departments today will position their teams for nimbleness and collaboration well into the future.

When it comes to evolving their tax departments in the years to come, many tax leaders note the following as integral to their success:

– a balance of in-sourcing and outsourcing

– diverse technology solutions

– enhanced data management

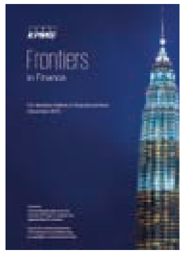
– continued focus on demonstrating alignment of tax efforts with an organization's business and reputational goals.

While there is a general sense that departments need to change, tax leaders seem to agree that there are still too many unknowns to say with certainty what the tax department of the future needs to look like.

Further information

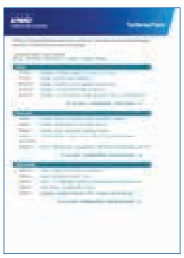
For further information and resources, please explore the links or visit kpmg.com/tax. You might also consider attending an upcoming webcast or event designed to address issues of interest to CTOs. As always, please feel free to contact a KPMG professional to discuss these strategies and tools, or to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

BEPS Action Plan: Taking the pulse in the EMA region



Frontiers in Finance

Global Tax App



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Designed by Evalueserve.

Publication name: Chief Tax Officer Outlook

Publication number: 133225-G

Publication date: February 2016