2015 global benchmark survey on indirect tax and trade compliance

Global Indirect Tax Services

KPMG International

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Contents

Introduction

More than 160 countries already impose **indirect taxes**, with new ones following suit each year, reflecting a significant and permanent global shift in the way that governments earn revenue. With budgets squeezed, tax authorities are now more focused than ever on ensuring that collection is thorough and complete, putting increasing pressure on companies to comply with regulations. Indirect taxes and trade and customs are intrinsically intertwined globally when considering cross-border movement of goods and the basis for payment of taxes and duties.

Complexity is also on the rise, and businesses must process vast amounts of data to ensure that they are paying and collecting the right sums of indirect tax on transactions. Tax authorities don’t just want returns filed accurately and on time, but also seek confidence in organizations’ ability to get their numbers right.

These demands raise questions over the governance and management of indirect tax, which in turn has an enormous impact upon a company's cash flows. Without a robust and consistent approach to management, companies are open to errors that could negatively impact working capital and leave them exposed to penalties and audits.

KPMG's Global Indirect Tax Services practice has been carrying out regular benchmark surveys on indirect tax since 2011. This year, we have also sought the views of trade compliance professionals, to evaluate how companies around the world are approaching these two critical areas. Oversight of indirect tax and trade compliance practices and processes is a major challenge. With a lack of harmonization of tax laws, different countries introducing indirect tax at different times, and constant changes to rates, companies need to gain visibility over practices across their worldwide operations, and establish a consistent approach to compliance. Technology is another key factor in automating processes and eliminating errors.

Once they have gained mastery over these 'basics,' indirect tax heads can start to look at ways to add value to the business.

Global trade compliance is about far more than just avoiding penalties for non-compliance. An effective trade and customs team is an integral part of the global supply chain, ensuring that goods are cleared quickly and moved to their appropriate destination. Smart planning can bring a number of valuable benefits, such as lowering duty costs by utilizing regional and bilateral free trade agreements, and making use of free trade zones that allow businesses to bring merchandise into a country without paying immediate duties.

The survey findings and this report paint a vivid picture of current practices, which are augmented by expert views from KPMG practitioners who provide insights into potential best practice, and how these two vital functions can add real value to global organizations.

About the survey

In mid-2015, KPMG's Global Indirect Tax Services surveyed **138 senior executives responsible for indirect tax and 52 responsible for trade compliance** at global, regional and country levels. Approximately 40 percent of those taking part have full global responsibility for their functions. The respondents come from a wide variety of industries in over 23 countries across every continent, including a significant number of major multinational corporations with an annual turnover of more than 20 billion US dollars (USD).

I would like to thank all the survey participants for their valuable time. They have provided some essential insights that can help organizations of all sizes get more value from their indirect tax and trade compliance functions.

Tim Gillis
Head of Global Indirect Tax Services

For the purpose of this survey and in this report, indirect taxes are defined as transactional taxes including VAT/GST, excise taxes, consumption taxes and other subnational taxes (e.g. Brazilian ICMS, Canadian provincial sales tax, US sales tax and other similar tax regimes which are levied on a state, provincial or local basis).

Throughout this survey report, regional abbreviations are used as follows: Asia Pacific (ASPAC), Europe, Middle East & Africa (EMA), and Latin America (LATAM).

Highlights

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 ASPAC and LATAM, 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 3 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 EMA and ASPAC 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 LATAM. **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.

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 LATAM. 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

Indirect tax

"Some companies are transforming their indirect tax functions, moving from compliance to adding real economic value to their organizations."

— **Tim Gillis**
Head of Global Indirect Tax Services

Measuring performance

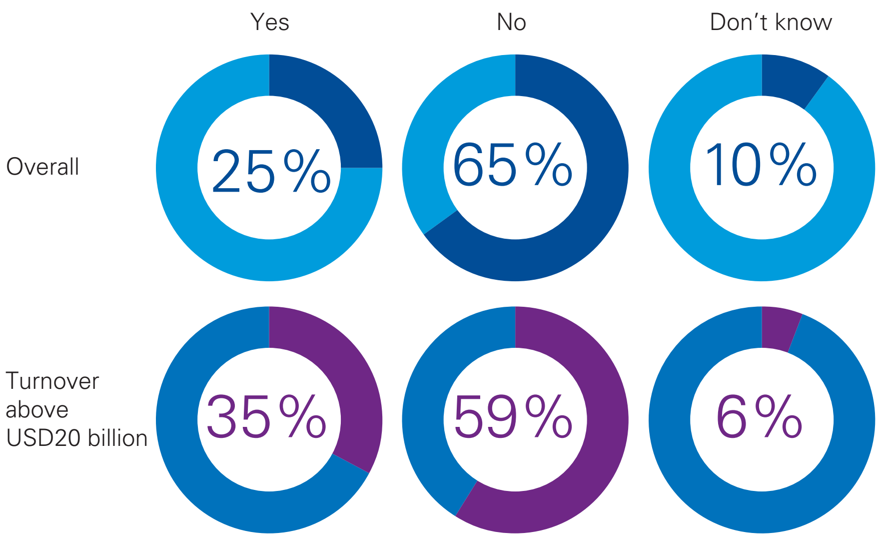
Most companies appear to have no metrics to evaluate the performance of their indirect tax teams. The minority that do measure performance tend to focus on basic tasks rather than value adding activities.

If the mantra "what gets measured, gets done" is to be believed, then the companies taking part in this year's survey have considerable room for improvement in the way they assess the performance of their indirect tax management. Only 25 percent of respondents say their businesses have specific metrics on how they manage indirect tax, which is a significant drop from the corresponding 2013 figure of 41 percent. Given that indirect tax involves the third largest cash flow of organizations (after sales and cost of sales), then senior management would appear to lack visibility over the movement of significant sums of money in and out of the business.

In common with previous surveys, larger businesses are more likely to have metrics, but the proportion of this group that measure performance is still only a third; again considerably fewer than in 2013. In an environment where tax functions are increasingly being asked to demonstrate the value that they provide to business, indirect tax may struggle to provide good answers.

Only **one quarter** of respondents have specific metrics in place for the management of indirect taxes.

Are there specific metrics established by the organization to measure the effectiveness of your indirect tax department's performance?



Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

Of the few companies that have metrics, the top two measures — timely and accurate submission of indirect tax returns, and minimization of interest and penalties — are essentially 'hygiene' factors unlikely to have much impact upon the company's cash position. The third most important metric, rated by just 14 percent of respondents, is managing indirect cash flow, which is arguably the only one of the top three that could generate value for the organization by improving working capital.

Over a fifth of the survey responses are from financial services businesses, where indirect tax on expenditure can represent a profit and loss (P&L) cost. The findings suggest that many respondents from this sector are not measured on actively reducing their indirect tax cost base and, therefore, could be unknowingly paying too much value added tax (VAT).

What are the top three metrics used to measure the effectiveness of the indirect tax department's function?

	Overall	Turnover above USD20 billion
Timely and accurate submission of Indirect tax returns	28%	36%
Minimize interest and penalties	18%	15%
Indirect taxes cash flow	14%	17%
Relationship with the tax authority	10%	15%
Reduction in indirect taxes cost on expenditure	10%	6%
Awareness of VAT/GST in the business	9%	6%
Reduction in indirect taxes payable on income	3%	0%
Reduction in external advisers spend	3%	0%
Other	5%	5%

Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015
Note: Charts may not add to 100 percent as multiple responses allowed.

58 percent say indirect tax has a negative cash impact on their business.

When asked how indirect tax affects their company's cash situation, 58 percent of the survey participants believe that the overall impact is negative (up from 51 percent in 2012) and a further 11 percent say they simply don't know.

Indirect taxes have a complex effect on cash flow, as businesses must cope with, not just the net indirect taxes payment to, or receivable from, the tax authority, but also the indirect taxes that flow in and out of an organization daily (on customer receipts and payments to suppliers). The ultimate impact should be cash neutral, as every dollar paid should be collected, and vice versa, so a negative working capital impact suggests that the management of indirect tax could be more effective.

The aforementioned lack of performance measurements could be a contributor to this response, as heads of indirect tax may not be fully aware of how the teams are dealing with the complexity of significant in- and -out cash flows. Without a clear picture of cash flows in either direction, department heads may well perceive indirect taxes as regular payments to tax authorities, rather than a two-way movement of funds.

What do you believe is the cash impact of indirect taxes on your business?

	2012	2013	2015
Cash positive	23%	19%	7%
Neutral	22%	20%	25%
Cash negative	51%	58%	58%
Don't know	4%	4%	11%

Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015
Note: Charts may not add to 100 percent due to rounding.

Insight: getting the figures — and getting beneath them

With increases in indirect tax rates and widening of the tax base, the volumes of cash, the complexity and range of transactions are also increased accordingly. Achieving compliance, while important, is really only the minimum one expects of a tax department. Indirect tax affects all purchases and sales, and companies should strive to recover all VAT as soon as possible, only pay what's due, and avoid any errors in transactions.

Heads of indirect tax must understand what's driving the movement of working capital, and introduce appropriate measurements. Knowing the average creditor days versus debtor days, for example, will enable the department to calculate average VAT funding delays, and, if necessary, address any unreasonable delays. In addition, incorrect VAT coding for items such as food and children's clothes can push up the price to the consumer, damaging competitiveness.

There are five key measures of indirect tax, each of which has a series of sub-measures:

1. **tax under management (tax as a percentage of revenue):** to highlight the magnitude and impact of indirect tax on cash flows
2. **transaction error rates in accounts payable:** to understand value and frequency of errors, and causes
3. **accounts payable posting errors/delays:** to highlight cash flow advantages from improved posting accuracy
4. **transaction error rates on accounts receivable:** to understand the value and frequency of errors on sales transactions and causes
5. **timing:** calculate average VAT funding delays on supplies and purchases.

Structure and organization

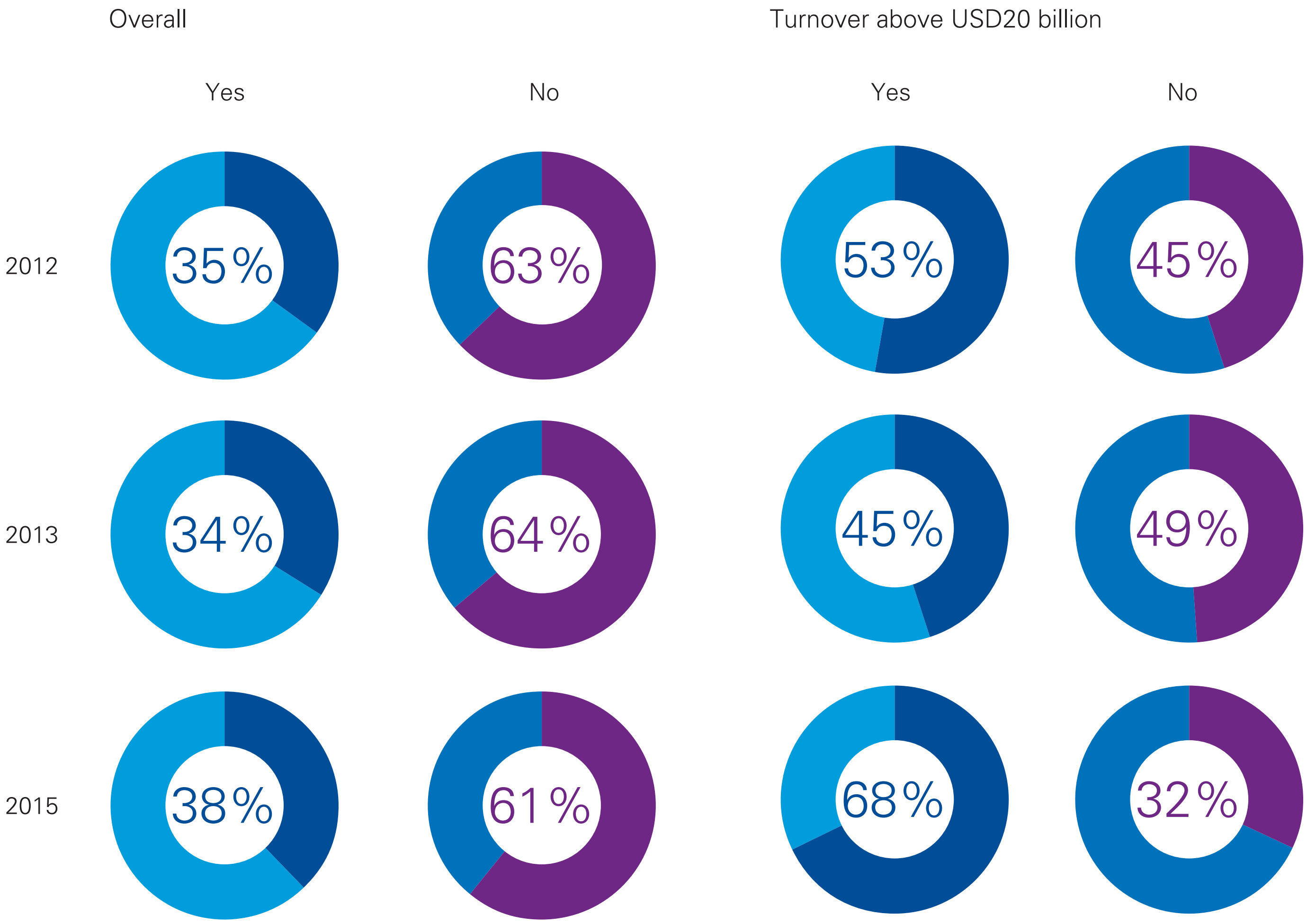
A growing number of companies are recognizing the importance of indirect tax and appointing global heads to oversee performance. Regional coverage is extending, particularly in LATAM and ASPAC. There is a gradual shift from everyday tasks such as filing returns, towards more valuable activities like planning and business advice.

68 percent of larger businesses now have a global head of indirect tax.

Since the first benchmark survey in 2011, one constant trend has been the increasing number of businesses with global heads of indirect tax. This acknowledges that more oversight at a central level can help to better manage the huge volumes of cash involved, introducing greater consistency.

Thirty-eight percent of respondents now have a global head of indirect tax, rising to 68 percent for larger businesses — up from 45 percent in 2011. However, with so few companies producing performance metrics, these leaders' ambitions may remain thwarted, as they will have limited visibility of global performance.

Do you have a global head of indirect tax (or equivalent title)?



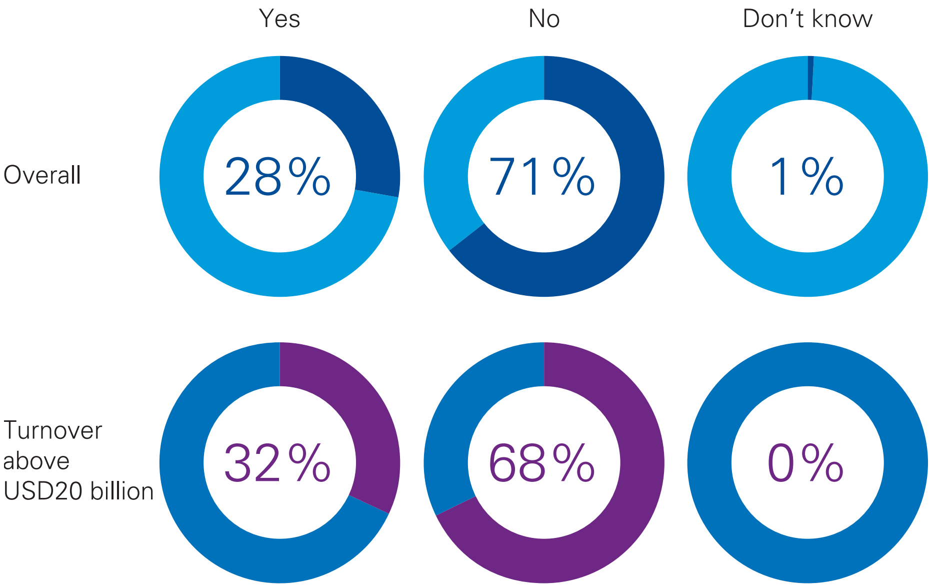
Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015
Note: Responses for third answer option of "Don't know" account for remaining percentage totaling 100 percent

The most common location for global heads of indirect tax is the UK (one third of respondents and 52 percent of larger businesses) and Germany, Switzerland and the US.

The bias towards Europe reflects the maturity of these markets, some of which have had indirect taxes for 40 years or more. In the US, each state has its own unique sales tax, which is typically out of the scope of the global head, with the US leader also often responsible for Canada as well. LATAM nations, on the other hand, have some of the most highly complex indirect tax regulations, and these tend to be dealt with in-country.

Twenty-eight percent of respondents, and 32 percent from larger businesses, say they have regional heads of indirect tax. These figures have barely changed since the 2011 survey, which may be due to budget constraints on headcount. With the number of global heads on the increase, a national-global reporting line may suffice, especially as the vagaries and complexities of certain country's indirect tax laws require a very local specialism.

Do you have regional heads of indirect tax (or equivalent title)?



Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

The number of regional heads may not be going up, but the coverage of these roles has broadened considerably. Virtually all the respondents that have regional heads of indirect tax count the EMA region as part of their brief, compared to just 65 percent in 2012.

Larger companies' regional heads have very high coverage of ASPAC and LATAM, indicating an ever-maturing indirect tax environment in these parts of the world. Puerto Rico, for example, is introducing a 16 percent VAT rate, effective for transactions occurring after 31 December 2015, replacing other sales and use and gross receipts taxes. Ninety-three percent of respondents from larger businesses now have regional resources in Asia. This is a significant change and a reflection of both the complexity and increasing maturity of the indirect tax systems in this markets.

Insight: growing regional focus

ASPAC

The increase in regional indirect tax specialists in ASPAC reflects growing multinational investment in the region, the implementation of new indirect tax systems in major markets such as China, India and Malaysia, and the complexity of managing indirect tax compliance in the region, given the diversity of indirect tax systems and approaches by tax authorities.

Americas

The wide array of indirect taxes in the Americas results in a disparate approach to managing indirect tax. Global heads may or may not have responsibility for the many different regimes spread across the region and companies take different approaches, reflecting past practice (e.g., local country management). The increased focus on indirect tax globally is, however, turning the spotlight on this region and companies are beginning to consider alternative strategies.

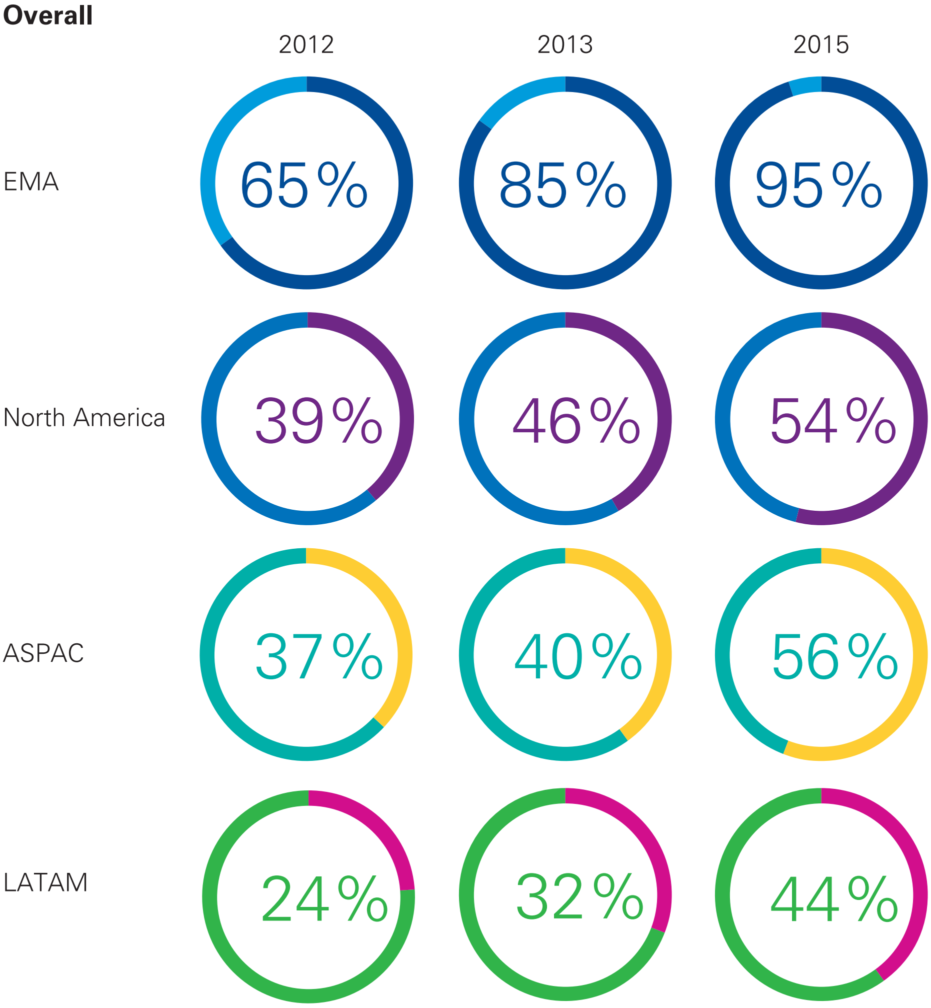
EMA

EMA continues to have a strong trend towards having regional indirect tax managers. The common VAT framework in the European Union (EU), coupled with the maturity of the system, has long demanded regional focus from multinational companies. It is likely that the high proportion of global heads being based in Europe is linked to this, as the first generation of EMA regional heads have progressed into more senior roles.

More than **60 percent** of larger businesses now have regional heads of indirect tax in all major regions.

What regions do your regional head of tax (or equivalent title) cover?

Overall



Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

Note: Charts may not add to 100 percent as multiple responses allowed.

Global indirect tax resources

In the 4 years since our first benchmarking survey in 2011, the proportion of respondents whose businesses have up to 10 indirect tax employees has risen from 50 percent to 61 percent. This trend is likely to be a result of greater awareness of the importance of indirect tax.

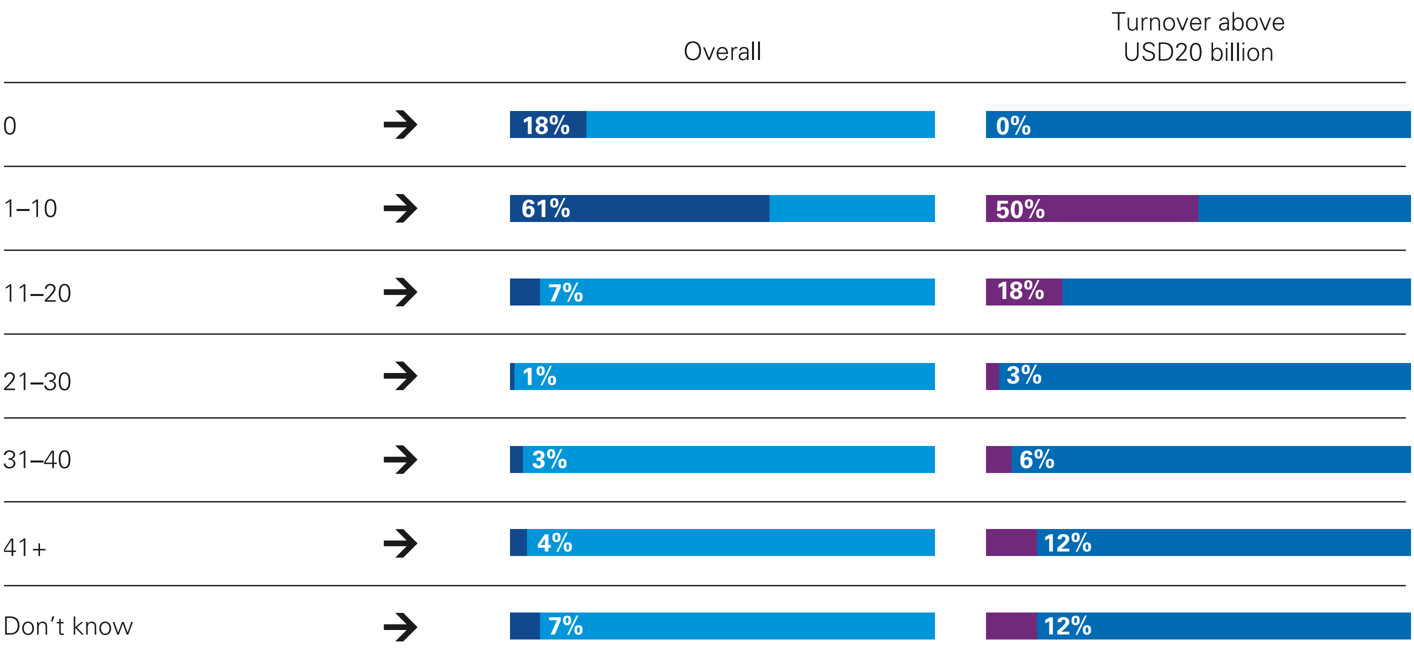
In contrast, there appears to now be fewer businesses with larger teams, which is probably due to a combination of headcount cuts, investment in labor-saving technology, and increased use of outsourcing. A small number of respondents, 7 percent, say they do not know how many indirect tax employees they have. This does not necessarily mean a lack of control; it could just as easily be a result of tax or even finance teams in certain regions, such as LATAM, having multiple roles that include indirect tax.

Given the maturity of European VAT regulations, it is no real surprise that twice as many respondents say they have indirect tax specialists located in EMA, than in North America. The rapidly increasing number of firms with specialists in ASPAC — 41 percent overall, and 63 percent for larger businesses — is a further indication of the growing importance of this region.

LATAM seems to be the one region where the trend is flat, which again could be down to the multi-tasking nature of tax and finance teams, making it harder to determine which individuals are dedicated indirect tax specialists.

Two-thirds of larger businesses now have dedicated indirect tax resources in ASPAC.

How many full time equivalent indirect tax specialists do you have in your business globally?



Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

Note: Charts may not add to 100 percent due to rounding.

93 percent of respondents from larger businesses now have regional resources in Asia.

In which region(s) are your indirect tax specialists located?

Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

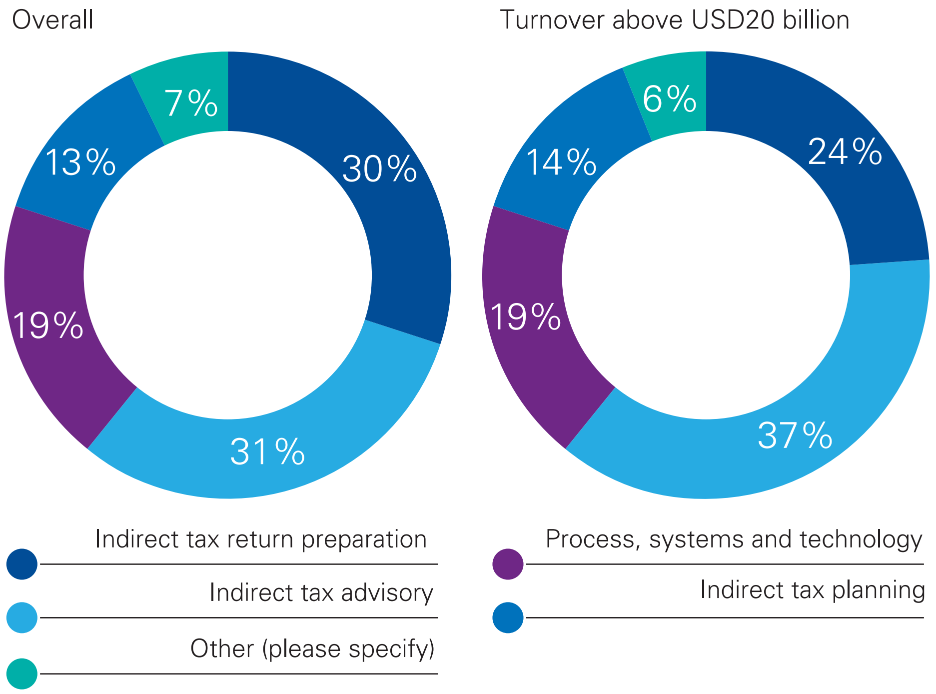
Note: Charts may not add to 100 percent as multiple responses allowed.

A continued focus on compliance

According to the respondents, 30 percent of the time spent by indirect tax teams is devoted to tax returns, which is up from the 2013 figure of 28 percent. For larger organizations involved in the survey, the proportion is lower at 24 percent, which is likely to be due to efficient, centralized tax centers of excellence with standardized processes and enhanced technology, or outsourcing to third parties.

Since 2012, indirect tax departments appear to be spending more energy on value-adding activities such as advisory, or developing better processes, systems and technology (although the time focused on tax planning — a vital element in getting more out of the team — has actually declined from 15 percent to just 13 percent in this period). These findings may be linked to the lack of performance metrics employed by most of the participating organizations. For those that have metrics, compliance is one of the main indicators, which would influence teams to put this activity ahead of other more strategic activities.

What is the percentage of time allocated to each task undertaken by your indirect tax specialists?



Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

Accountability and visibility

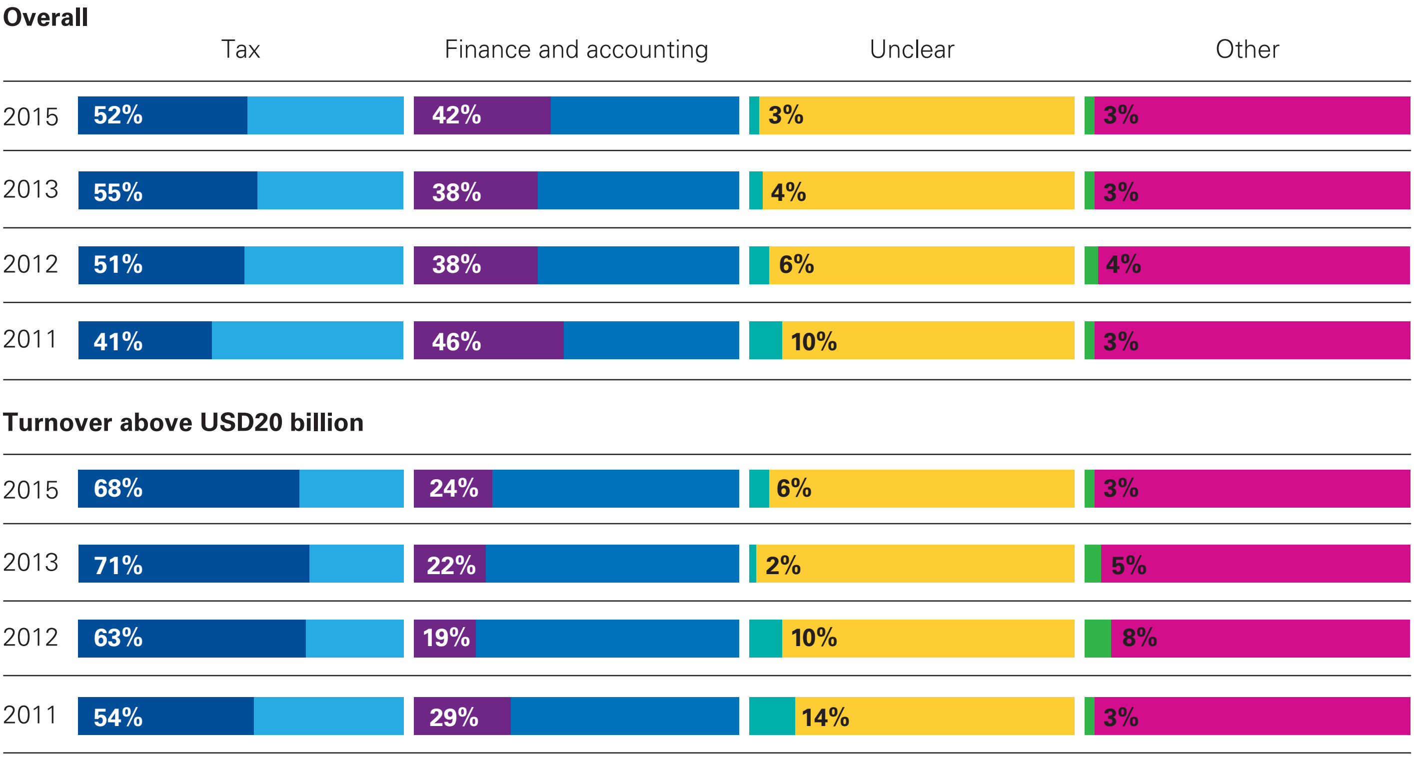
The longer-term trend to shift responsibility for indirect tax to the tax function continues. However, despite an increase in central visibility over global indirect tax performance, many companies still lack awareness of what's going on at a local country level.

The tax department is accountable for indirect tax in **52 percent** of respondents' companies, rising to **68 percent** for larger businesses.

More and more companies are acknowledging that indirect tax is too important to be left to generalists, and the survey shows a clear, longer-term trend towards passing accountability to the tax function. Fifty-two percent of respondents, and 68 percent of larger companies, say that their tax departments now have ultimate ownership of indirect tax. The proportion in 2011 was 41 percent and 54 percent respectively. In most other cases, the responsibility rests with the finance and accounting function.

Although the latest results show a slight decrease from the 2013 survey, the overall message across 4 years shows indirect tax establishing a clear reporting line to tax, rather than acting as a mere service provider to finance and accounting.

Who has ultimate accountability for indirect taxes in your business?



Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

Note: Charts may not add to 100 percent due to rounding.

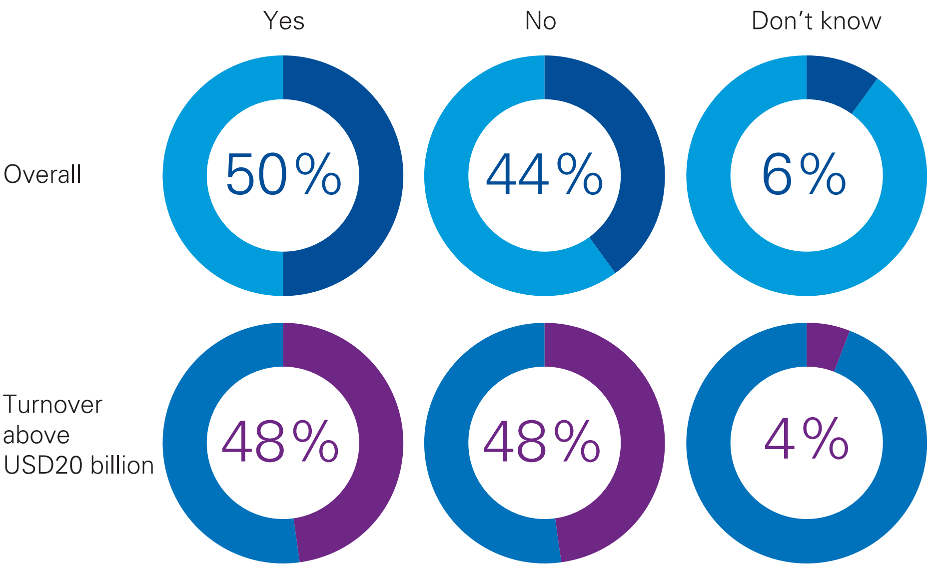
According to our survey findings, visibility over indirect tax activities is increasing significantly, demonstrating a clear desire to impose greater central consistency and control over local performance. In 2012, of those respondents that had a global head of indirect tax, only 26 percent had visibility over indirect tax returns prepared at a local/country level; in 2015 this proportion has leapt to 50 percent.

Having more global heads means having the tools and evidence to demonstrate they are meeting their objectives. Visibility is the key to meeting the most common metric — the timely and accurate filing of tax returns.

However, with only 38 percent of respondents saying their companies have a global head of indirect tax (page 12), and relatively few using performance metrics, there is clearly some room for improvement.

The number of global heads of indirect tax with visibility over indirect tax returns has **doubled** since 2012.

Does the global head of indirect tax have visibility over indirect tax returns prepared locally?



Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

Insight: Tax's changing role

As corporations seek to drive more performance from their tax and indeed other functions, business models are being centralized, in order to standardize global operations, to achieve consistency and give leaders a clear view over activity in each market. Today's multinationals may have dozens of operating companies and hundreds of legal entities, and often rely on these local organizations to carry out tax returns and planning.

All too often, the individuals responsible are not tax specialists, and, as mentioned earlier, have a number of other roles in addition to indirect tax. To make matters more complex, head office has little visibility over these activities and any reporting is typically in a variety of formats due to disparate systems and manual spreadsheets. It is still common for indirect tax to report into a regional or global head of tax, who is unlikely to have an intimate understanding of indirect tax, and may not know all the right questions to ask, or be able to spot key trends swiftly.

A centralized global head of indirect tax with clear reporting lines and consistent communications would have a clearer view of what's going on around the world, particularly whether regions and countries are managing cash flow effectively. This also requires a strong set of key performance metrics relating to tax planning and other value adding activities. Our survey suggests that, although firms are moving in the right direction, they are only part of the way there.

Managing risks

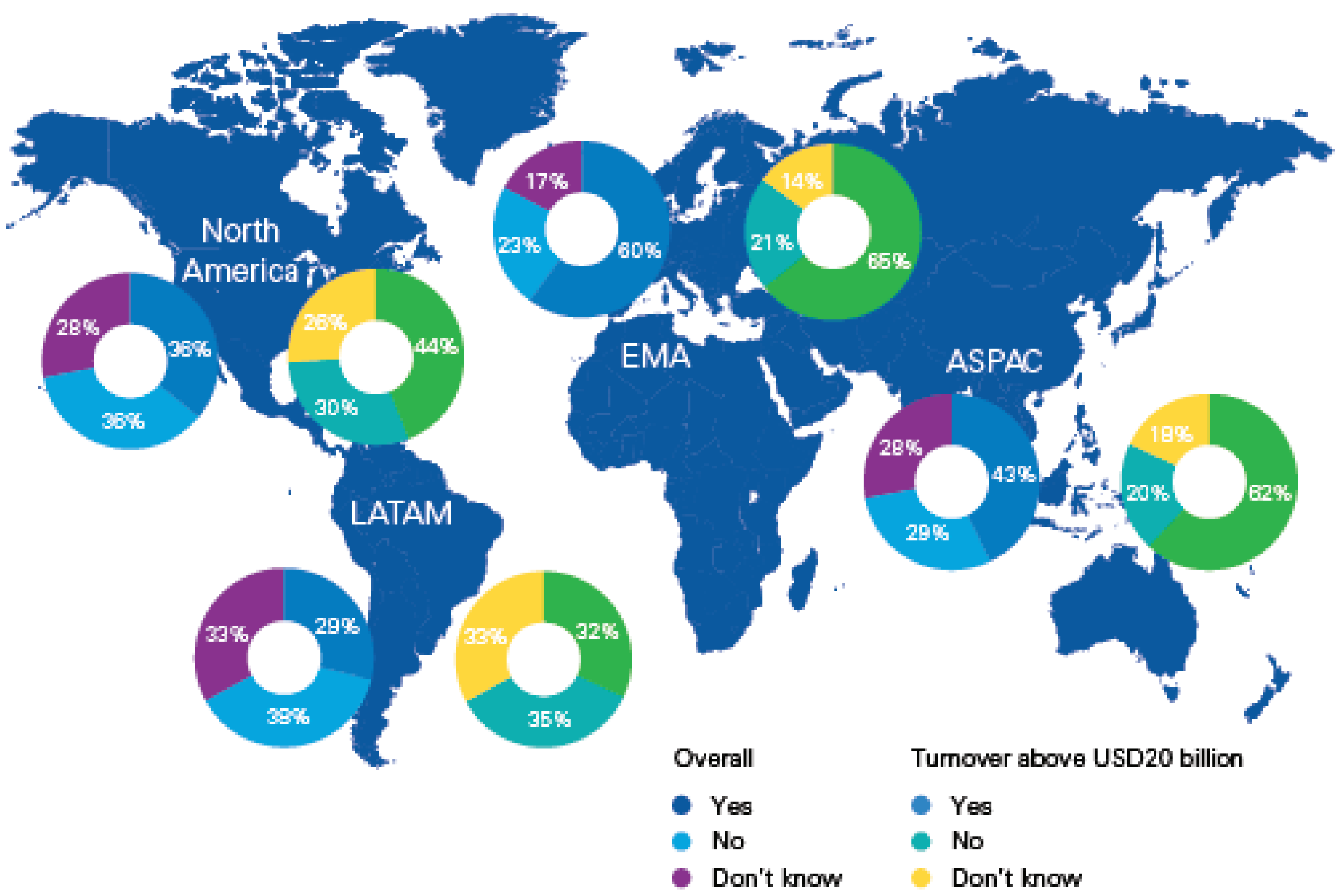
The degree of understanding of key indirect tax risks varies greatly from region to region, with many organizations yet to get on top of this critical issue. Only a minority say they have independent assurance over risk controls, with many favoring self-assessment.

Compared to the 2013 survey, **10 percent** fewer businesses in EMA now identify their key indirect tax risks.

To achieve an effective indirect tax control framework, companies need to manage the key risks in processes that involve cash flowing in and out such as 'order to cash,' 'purchase to pay' and 'record to report'. Respondents from EMA are the most likely to have identified these risks (in 60 percent of cases), whereas in other regions the proportion is well below 50 percent. Interestingly, these percentages have actually come down since the previous 2013 survey, which could reflect budget cuts. Only 29 percent of survey participants from LATAM say their businesses have identified risks, which could have a negative impact on their cash positions.

Given the increased focus of tax authorities over taxpayer behavior (such as Horizontal Monitoring in the Netherlands, Senior Accounting Officer regulations in the UK, and Director's Compliance Statements in Ireland), and the complexity of some countries' indirect tax regimes, organizations may need to reassess whether their risk management is comprehensive enough to satisfy regulatory authorities and optimize working capital.

Have you identified the key indirect tax risks in the following regions?

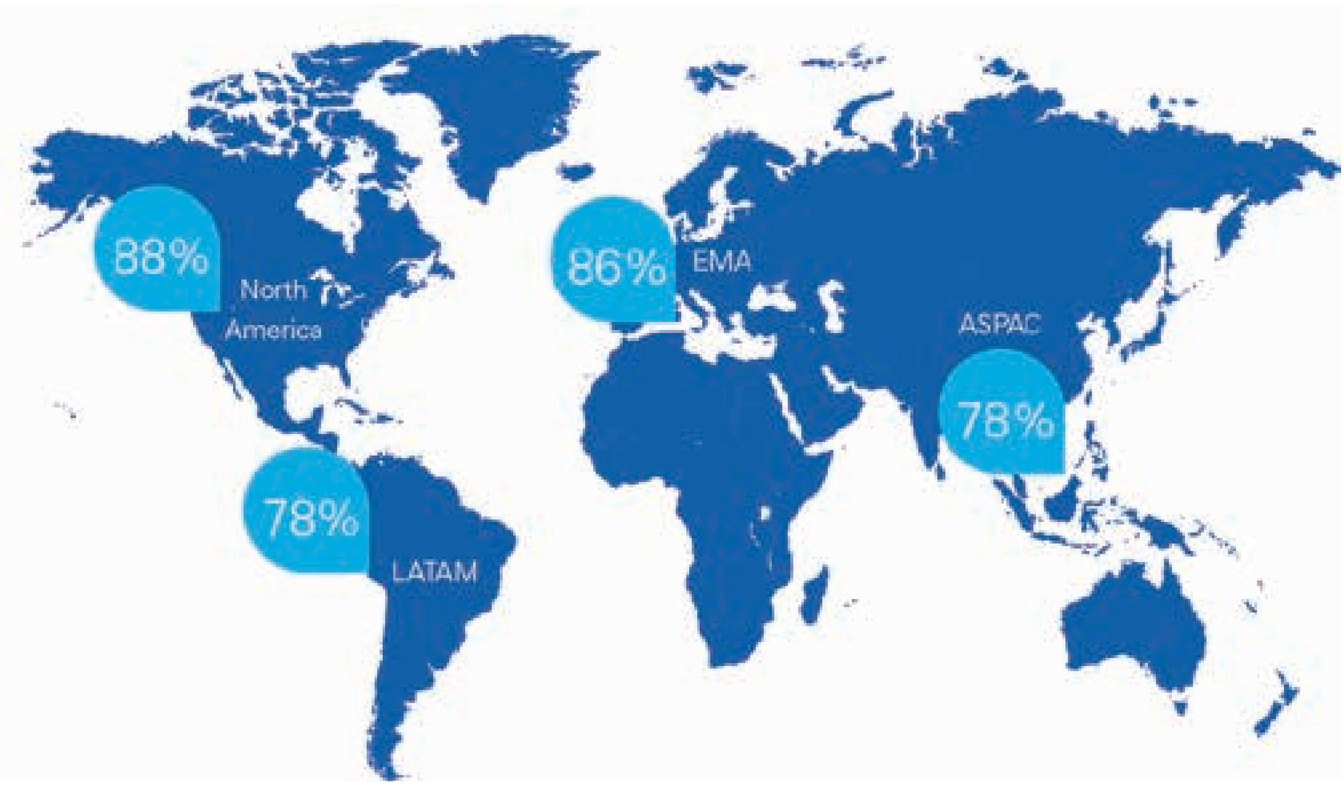


Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

Where businesses have identified regional indirect tax risks, the vast majority say they have associated processes and controls in place. The results are consistently high regardless of region and size of business, with North America highest at 88 percent. Risk identification on its own is not enough. A business needs to be confident that it responds to the risk by designing and implementing effective controls to mitigate that risk.

The longer-term picture shows a dramatic rise in management of indirect tax risks since 2011, with ASPAC leaping from 12 percent to 78 percent, and LATAM up by a similar proportion. However, with only a low proportion of companies surveyed identifying key indirect tax risks, many have yet to pass this first hurdle before even considering controls.

In what regions have you identified the key indirect tax risks and have process and controls in place to manage them?



Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

Embedding sound risk management

Having designed and implemented controls, businesses, as well as tax authorities, are increasingly testing their effectiveness through assurance programs. The most popular method of assurance, practiced by 52 percent of respondents' firms, is internal control self-assessment. In our previous 2013 survey, audit by the tax department was the second most popular assurance mechanism, chosen by 46 percent of respondents.

Although an internal control self-assessment is a good indicator of a 'first line of defense', there is a marked reduction in the number of respondents who now have the time and resources (whether in tax, or through internal/external audit) to provide a proper second and third line of defense. Only 43 percent of respondents with indirect tax controls in place carry out some form of independent audit assurance.

Less than **50 percent** of businesses with indirect tax controls in place have implemented an independent assurance process.

The overall trend is similar — self-assessment is most common. However, the over-reliance on self-assessment rather than active testing or independent review remains a concern. Most companies fail to have a robust way to test that controls are effective and working.

How do you ensure that these processes and controls are embedded in the underlying business process?

	Overall	Turnover above USD20 billion
Internal control self-assessment	52%	52%
Audit by internal audit	20%	30%
Audit by tax department	12%	11%
Audit by external auditors	11%	4%
Other	5%	4%

Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

Note: Charts may not add to 100 percent due to rounding.

Insight: raising the maturity of indirect tax

Companies are waking up to the notion that risk management is an essential part of indirect tax. Earlier in this document we observed that 58 percent of respondents believe that indirect tax has a negative cash impact on their business. At the same time, paradoxically, many organizations still perceive that VAT is simply a movement of cash in and out of the company, and is somehow not much of a risk.

Yet, as we have discussed, indirect tax affects several parts of the business, and involves huge sums of money. Tax authorities certainly recognize this, and ask for, not just a tax return, but also for assurance over underlying controls and processes. Regulatory pressure is certainly one reason for the rapid rise in controls, and companies rank 'minimizing interest and penalties' as a major performance objective. If they are to avoid errors and meet compliance targets, they should start to implement independent checks on the effectiveness of their controls.

Reporting and compliance models

The trend is for greater centralization and more use of outsourced services to carry out indirect tax compliance.

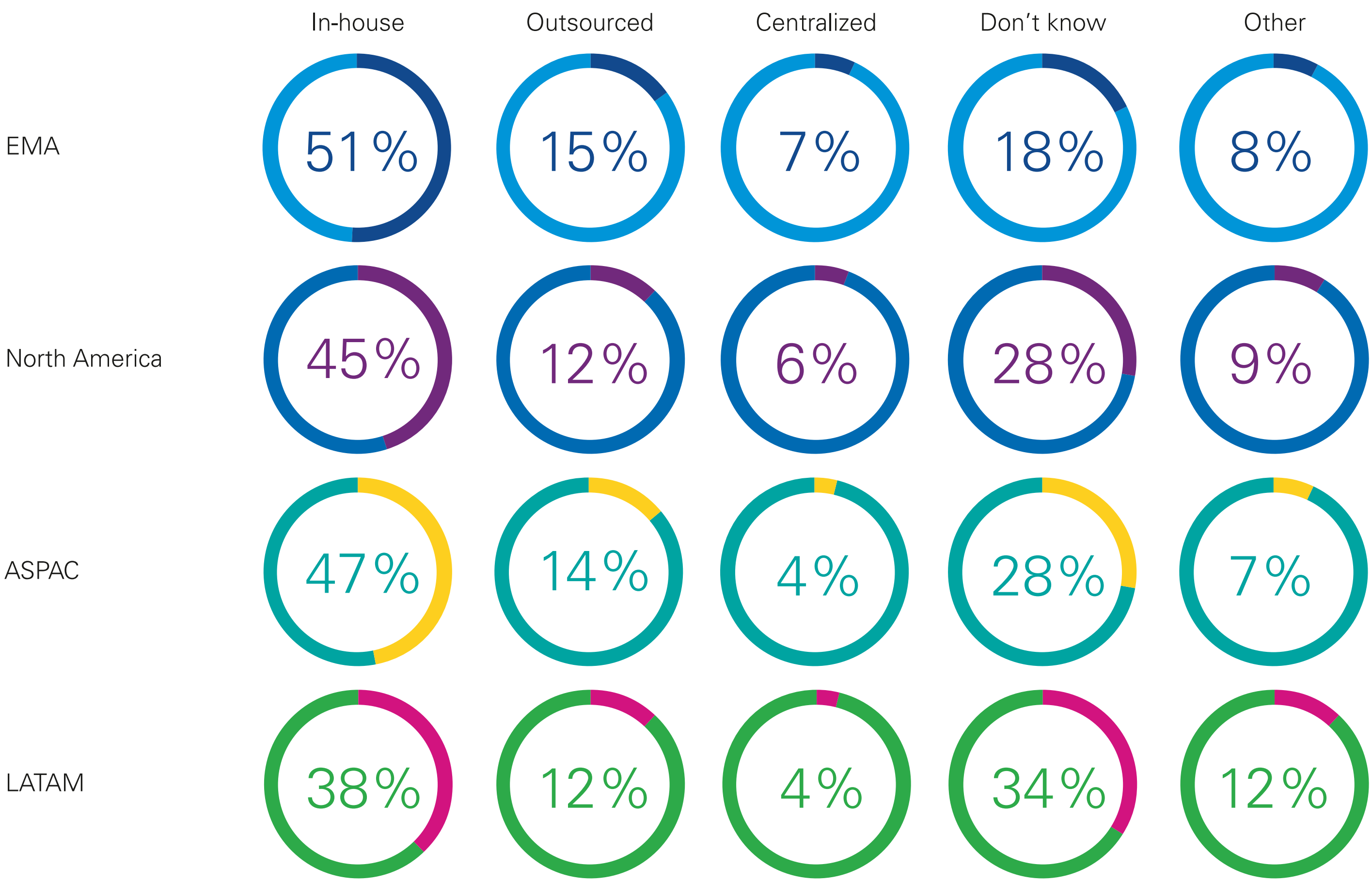
Overall, respondents prepare their indirect tax returns in-house, on a local country-by-country basis. Indeed this method is more common than centralization or outsourcing (be it at a local or regional level) with close to 50 percent of all businesses continuing to rely on their local team. In all regions, where there has been a move to develop a more standardized approach to compliance, outsourcing is proving to be a more popular strategy than centralization into shared services or a tax center of excellence, with more than twice the number of respondents looking to follow this approach.

Around 14 percent of all the companies surveyed claim that outsourcing is their most predominant compliance model. However, outsourcing is often a natural consequence of centralization, with some organizations first creating a shared services structure, before contracting out to third parties.

Not surprisingly, more of the larger businesses involved in the survey have adopted a centralized, standardized approach. What is more surprising is the admission by a significant proportion of respondents that they don't know where the tax returns are prepared.

What is the predominant compliance model in your business?

Overall

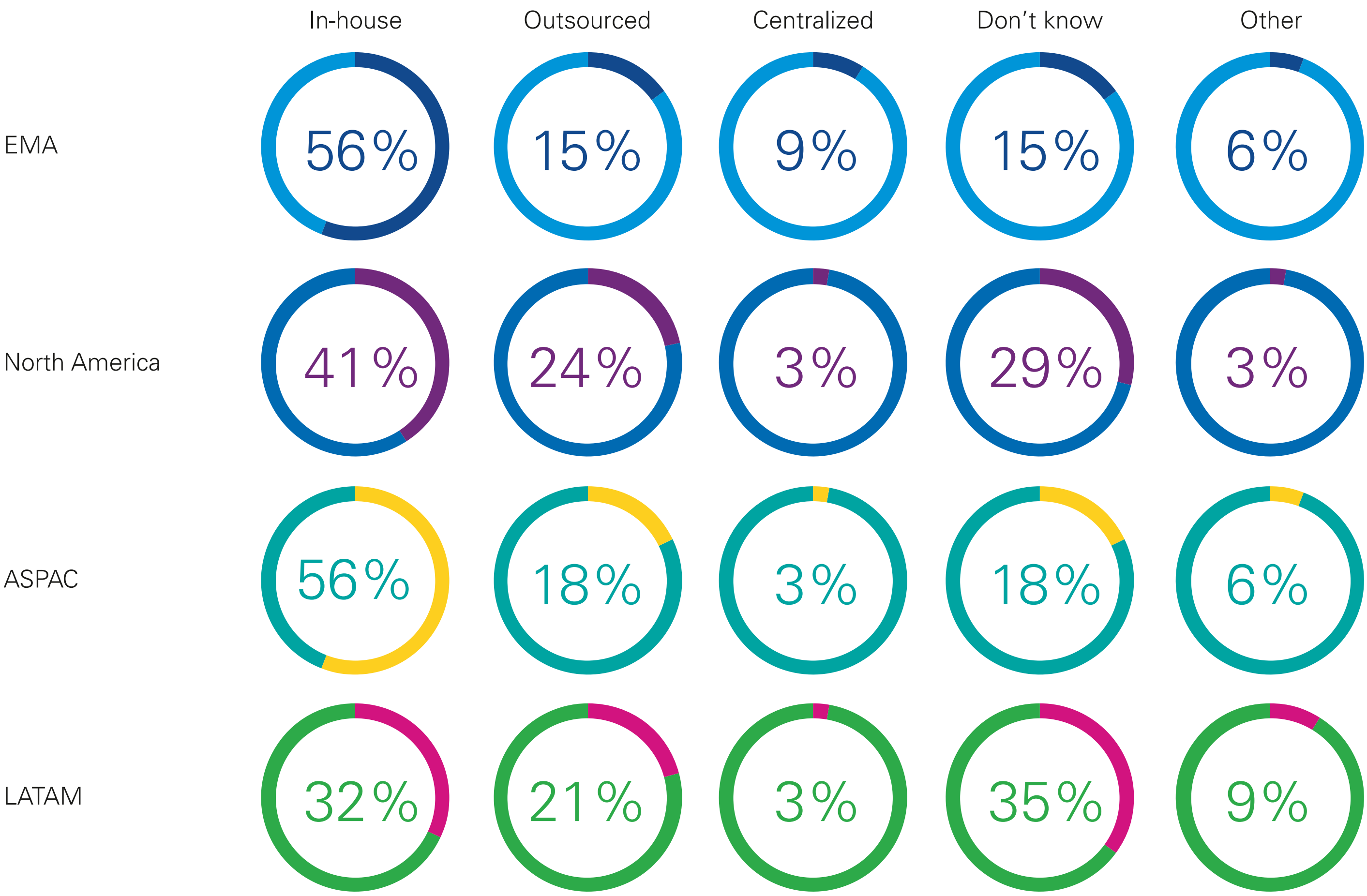


Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

Note: Charts may not add to 100 percent due to rounding.

What is the predominant compliance model in your business?

Turnover above USD20 billion



Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

Note: Charts may not add to 100 percent due to rounding.

Many respondents have not worked out their future model for **compliance**.

With indirect tax compliance often managed by the finance function, any decision to change is driven by finance's own plans for shared services or outsourcing of its processes. As more businesses seek such finance transformation, centralized or outsourced compliance models are likely to grow in parallel.

The respondents to this year's survey expect to see a fall in locally-delivered compliance over the next 3 years, with the biggest change coming in EMA. Larger firms in ASPAC are the most likely to anticipate this change. Of all the preferred future models, in-house remains the most frequent choice, especially for larger businesses.

Almost one-third of respondents from ASPAC, LATAM, and North America say that they are currently uncertain as to how compliance will be managed in future.

How do you expect your compliance model to change between now and 3 years from now?

Overall

	In-house	Outsourced	Centralized	Don't know	Other
EMA	–15%	+2%	+10%	+4%	–1%
North America	–10%	+2%	+4%	+5%	–1%
ASPAC	–11%	+3%	+6%	+4%	–2%
LATAM	–10%	+5%	+6%	+2%	–3%

Over USD20 billion

	In-house (now)	Outsourced	Centralized	Don't know	Other
EMA	–15%	+3%	+9%	*	–3%
North America	–12%	+2%	+9%	*	*
ASPAC	–18%	+6%	+9%	*	–3%
LATAM	–8%	+3%	+9%	–3%	*

* Indicates no change between now and 3 years from now
Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

Insight: from local to global — an evolution of compliance delivery

Businesses are increasingly looking to drive greater cost saving and efficiency from their tax compliance processes through the adoption of standardized and centralized processes.

With indirect tax compliance processes often managed by the finance function, any decision to change the model for delivery is driven by the finance department's own strategic plans. In seeking to reduce costs, we have seen a new wave of 'outsourcing led transformation', where larger businesses are again looking at divesting themselves of low value, high volume transactional processing to third-party Business Process Outsource (BPO) service providers.

Historically, outsourcing of indirect tax compliance has been restricted to companies with a limited number of foreign or distance sales registrations: larger businesses typically chose to manage the compliance for more complex established entities themselves. Following the trend for outsourcing led transformation, we are seeing many larger, complex businesses considering the use of third-party services to support the more efficient delivery of these indirect tax processes.

There are two key reasons that outsourcing now provides a more credible alternative. Firstly, indirect tax outsource service providers like KPMG member firms can provide people capability (languages, local tax knowledge) that many businesses do not have the scale to invest in.

Secondly, third-party service providers offer the benefit of technology which increasingly underpins delivery, and can provide businesses with the benefit of greater analytics and insight.

This is taking many forms beyond the traditional outsourcing approach. Businesses are exploring different variations of 'hybrid' co-sourced compliance models, which can provide access to these capabilities, be it technology or country-specific tax skills, without the need to make major internal investments.

With a continuing trend for the use of BPO service providers to take out the cost by outsourcing transactional processing, outsourced compliance models are likely to grow in parallel.

Investing in technology and resources

Technology is the number one investment area for companies striving to optimize their indirect tax management, with data reporting and data analytics rising in importance.

67 percent say they will invest in technology to improve indirect tax management.

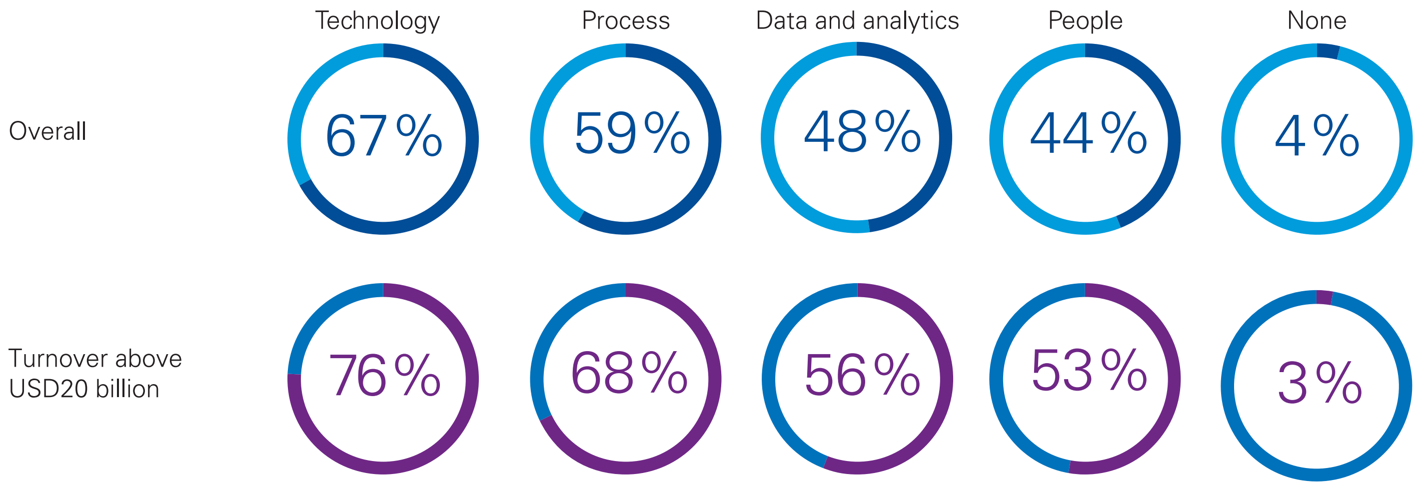
When asked where their investment priorities lie, over three-quarters of those larger businesses who responded chose technology, demonstrating the increasing use of software tools to drive the management of indirect tax. Processes are ranked second, to help standardize operations and gain greater consistency.

Despite the labor-saving potential of technology, 44 percent of all respondents still expect to invest in people. One reason is likely to be the need for additional resources to handle complexity and cope with the volume of compliance and advisory work.

The investment in technology appears to be broad, with respondents expecting to use more of a variety of tools in the 3 years to 2018, in order to prepare returns more efficiently and give greater insights into their indirect tax team's performance. Fifty-seven percent of all respondents (62 percent of larger businesses) already use VAT reporting software, a figure they forecast to grow by 5 percent, to help improve process automation, standardization and, ultimately, efficiency.

Tax departments have been investigating how 'Big Data' can give them more insight, so it's no real surprise that the proportion of respondents using data analytics is predicted to leap from 30 percent to 51 percent. Tax engines, powered by enterprise systems, are another strong growth area, bringing automation and access to real-time tax rule and rate updates.

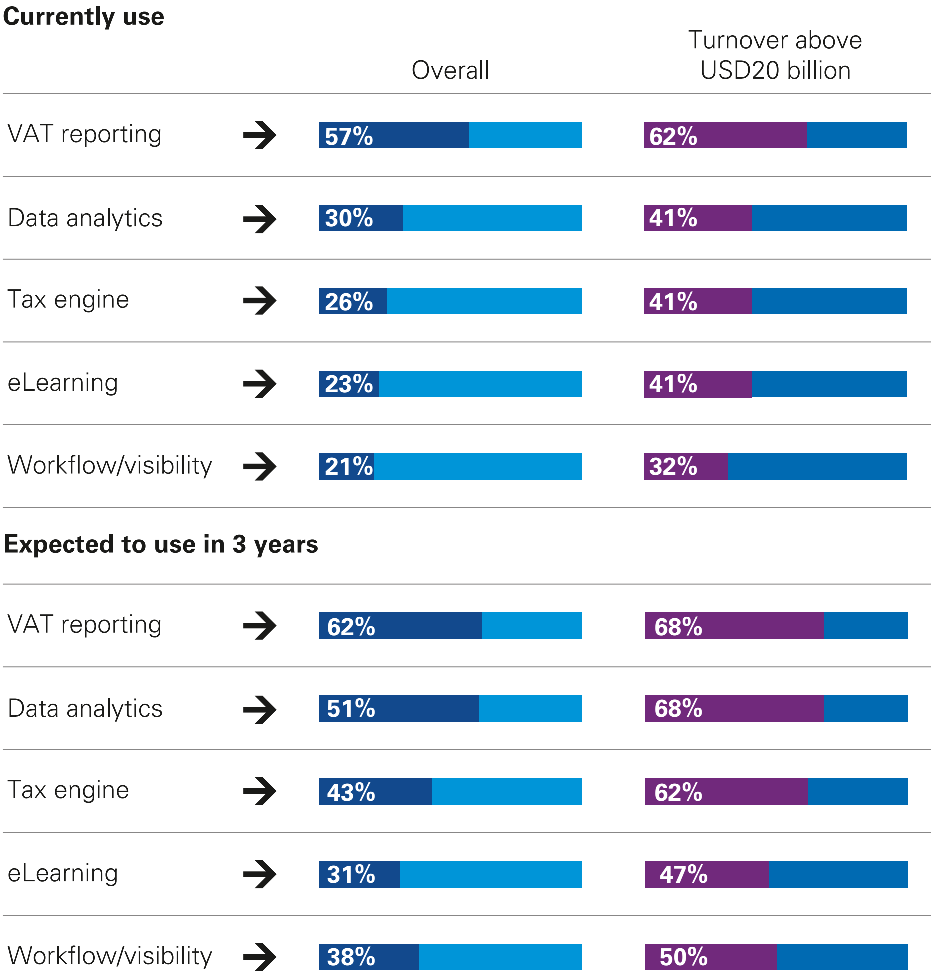
Which of the following do you plan to invest more in, in the next 3 years?



Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

Note: Charts may not add to 100 percent as multiple responses allowed.

Which of the following technologies do you currently use?



Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015
Note: Charts may not add to 100 percent as multiple responses allowed.

62 percent of larger companies expect to be using a tax engine by 2018, an increase of **21 percent** on today.

Insight: compliance and beyond

One of the big drivers behind technology in indirect tax is tax authorities' moves toward electronic submissions, and the use of data mining and analytics to improve audits of taxpayers. By requiring companies to file their returns online, the authorities can access richer data, more quickly. E-invoicing increases visibility of indirect tax collections, reporting and payments, to help confirm integrity of the content and authenticity of origin. Companies undergoing audits today are increasingly likely to be facing a technology-enabled auditor.

More and more businesses are now expected to collect, verify and report themselves. In Singapore and Australia, for example, the taxpayer must provide assurance that its data is being properly managed, and alert the tax authorities in the event of errors. In the Netherlands, statistical sampling of controls can be done in return for reduced audit and compliance requirements.

Fraud is also under attack. In the UK, tax authorities are investing in their capabilities to spot 'Missing Trader Fraud', a major cause of tax loss, by creating more accurate profiles of new VAT registrants, and screening out high-risk individuals and companies for deeper investigation.

All businesses will, therefore, need to improve both the automation and the governance of their indirect tax data, particularly in areas such as the calculation and reporting of purchase taxes, which is heavily reliant on manual data processes. Those that can demonstrate control will enjoy a 'light touch' from tax authorities, while those who cannot, will be likely to draw increased scrutiny and reporting requirements in the future.

As companies start to perform their own timely data analytics, they will find that the outputs can be used to provide wider strategic insights that can help bring greater value. Centralization is a critical factor in successful data and analytics, and those organizations with a strong, empowered global head, clear performance metrics and good visibility, should be in a position to get the most out of technology investments.

Trade compliance

“We are already witnessing an acceleration in maturity and sophistication of the global trade function as companies combine advanced automation with organization and process.”

— **Doug Zuvich**
Head of Global Trade & Customs Services

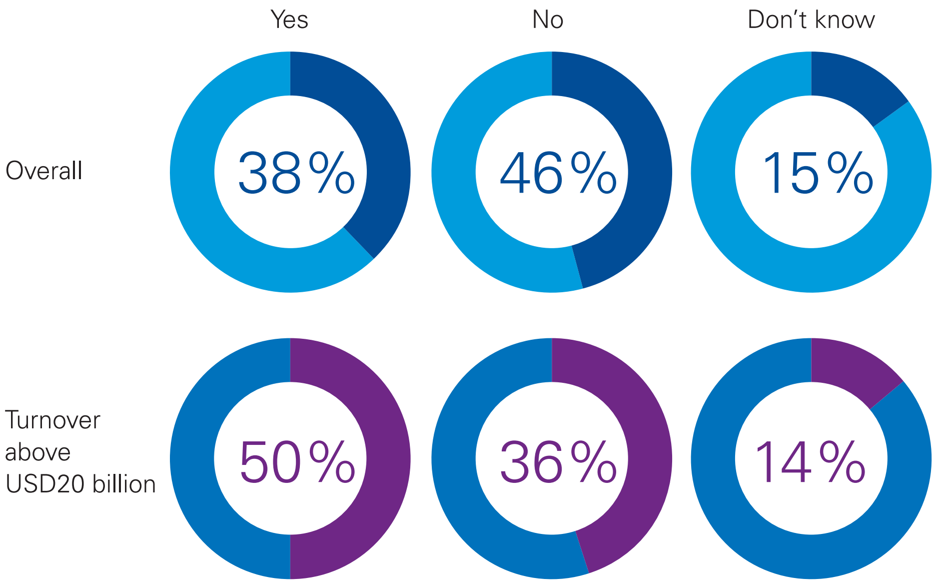
Measuring performance

Only a minority of respondents currently measure performance systematically, those that do focus primarily on compliance.

The scarce use of metrics may reflect the fact that many trade compliance functions are still evolving. It is equally possible that global trade teams lack the tools to effectively report not just on performance but the value add to the business. Just 38 percent of respondents (50 percent for larger businesses) say they report on performance. Without quantitative performance measurements to demonstrate added value and increased competitive advantage to senior management, global trade functions will continue to struggle to win funding for future investments in organization, automation and processes.

Only **38 percent** of respondents, and **50 percent** of larger businesses, say they have specific metrics to measure the effectiveness of their trade compliance department.

Are there specific metrics established by the organization to measure the effectiveness of your trade compliance department's performance?

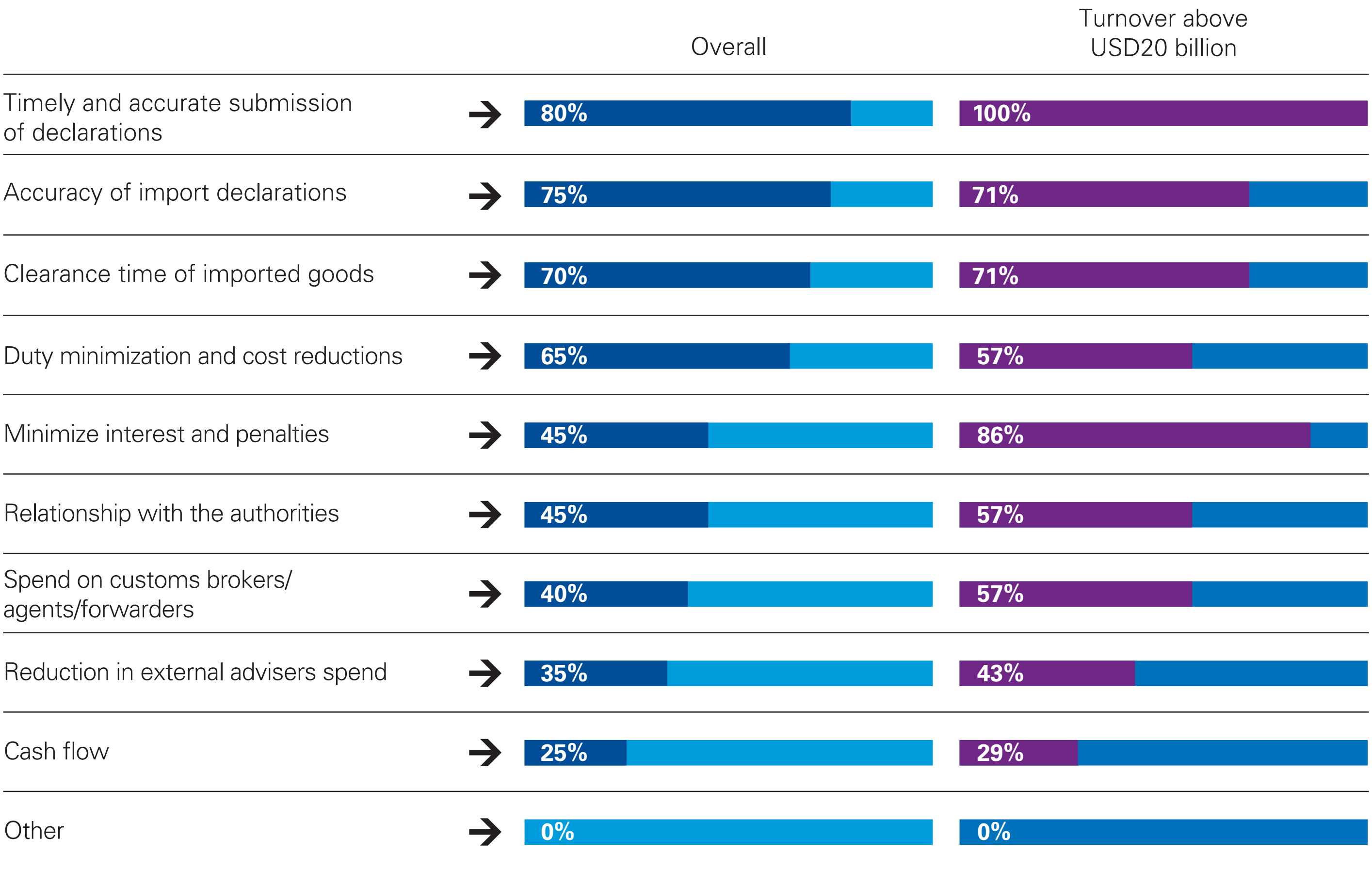


Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015
Note: Charts may not add to 100 percent due to rounding.

Of those respondents whose companies are using metrics, the majority are focused on measuring the timely and accurate submission of declarations and the clearance times for imported goods. This correlates with the finding that executives representing larger businesses in the survey are particularly interested in measuring the amount of penalties and interest incurred for non-compliance; which is most often associated with inaccurate and untimely declarations.

To a lesser degree, respondents are interested in measuring how effectively they reduce spend on brokers, freight forwarders and consultants. This could be attributed to the fact that not all global trade functions have responsibility for negotiating and managing contractual agreements with customs brokers and freight forwarders. Further, in a time of budget restrictions on full-time staff, external consulting support may be vital to ensuring compliance and managing duty spend.

Among those who have specific metrics established by their organization to measure the effectiveness of the trade compliance department's performance, what areas apply?



Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015
Note: Charts may not add to 100 percent as multiple responses allowed.

When asked to prioritize specific metrics, larger businesses were less likely to prioritize duty minimization and cost reductions. This could be because smaller companies are earlier on the maturity curve and therefore likely to be primarily focused on ensuring compliance with accurate and timely declarations.

Please rank the top three metrics established by your organization to measure the effectiveness of the trade compliance department's performance.

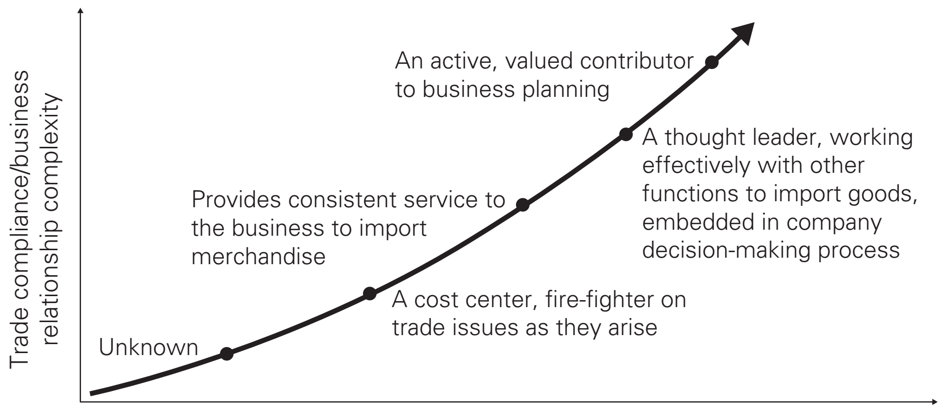
	Overall	Turnover above USD20 billion
Duty minimization and cost reductions	22%	13%
Clearance time of imported goods	21%	21%
Accuracy of import declarations	19%	29%
Timely and accurate submission of declarations	18%	21%
Cash flow	7%	0%
Minimize interest and penalties	5%	6%
Relationship with the authorities	5%	10%
Spend on customs brokers/ agents/forwarders	3%	0%
Reduction in external advisers spend	0%	0%
Other	0%	0%

Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

Insight: growing maturity

The key performance indicators show an evolving trade compliance function, where timeliness, accuracy, duty costs and movement of goods are the main priorities. Once these metrics have been addressed, the function can turn its attention to the 'softer' relationship-oriented and indirect trade activities, including reducing spend on external suppliers.

Trade compliance maturity curve: the evolution of the trade compliance function



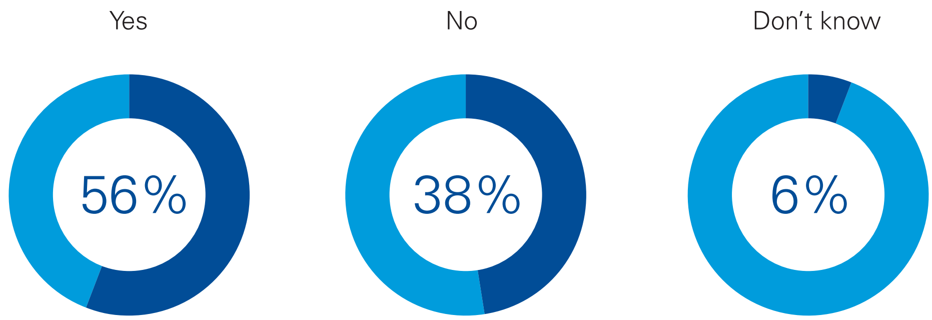
Structure and organization

More than half of the companies surveyed have a global head of trade compliance, most often based in the US. While the largest business have complete visibility over country specific duty spend, almost a quarter of other respondents have no visibility.

56 percent of respondents have a global head of trade compliance.

Our survey shows that many organizations are moving towards a global trade compliance function, with 56 percent of respondents stating that they have dedicated leadership in the form of a global lead. Some companies are still managing trade compliance on a regional basis, but will likely gravitate towards centralization in some capacity to gain efficiencies, spread leading practices and enhance country and regional collaboration.

Do you have a global head of trade compliance or equivalent title?



Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

Where are the global heads of trade compliance located?

	Overall	Turnover above USD20 billion
United States	66%	57%
Germany	14%	0%
Australia	3%	0%
Netherlands	3%	14%
Switzerland	3%	14%
United Kingdom	3%	0%
Other	7%	14%

Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

Note: Charts may not add to 100 percent due to rounding.

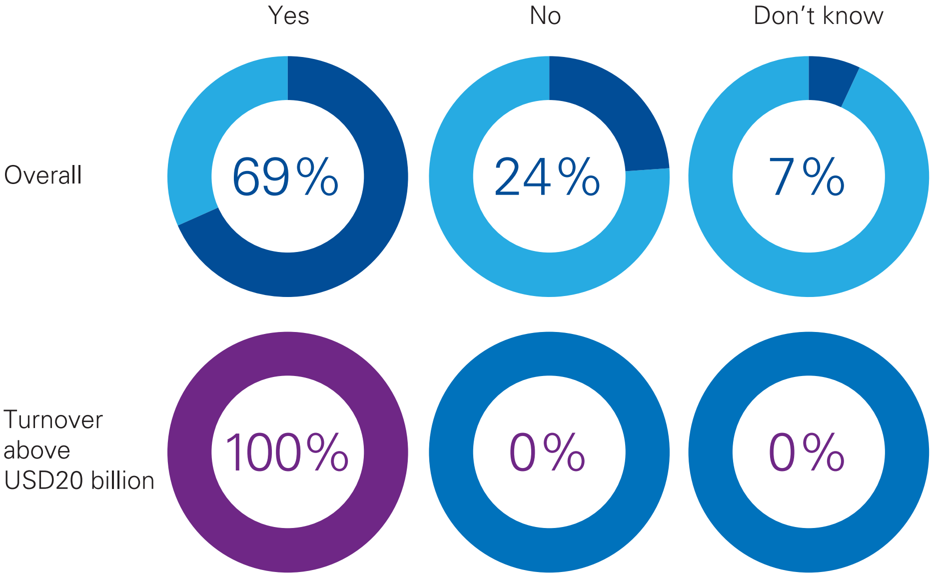
The US is home to two-thirds of the global heads in this survey, with a further 23 percent based in Europe. The US has historically had an aggressive trade enforcement environment compared to the rest of the world. Accordingly, US headquartered companies are often slightly further along the maturity curve for trade compliance than their peer companies around the world. Over time, we can expect a growing number of global leaders in other parts of the world, as policy and regulatory changes, and increase in treaties and foreign trade agreements, make trade compliance more complex.

Compared to other parts of the world, the US regulatory environment tends to be **more stringent** and **punitive** and consequently has a **more mature** global trade compliance function.

Monitoring global trade compliance activities

All of the larger businesses taking part in the survey report that their global head of trade compliance has visibility over duty costs by country, although the overall survey figure is just 69 percent. This could be a result of larger businesses having more integrated and automated systems to support global trade. Without global trade automation it is challenging for companies to maintain visibility of in-country trade activities and duty payments, as customs duties and associated costs are often booked within cost of goods sold in the company's financial systems making it difficult to discern the related spend and activities. At a central level, management won't necessarily know for which specific products they're paying duty, and where they're paying it; all of which calls for special tools which are now becoming a necessity for mature trade compliance functions looking to add value to the organization.

Does the global head of trade compliance have visibility over duty costs by country?



Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

Almost **one-quarter** of global heads of trade compliance lack visibility to duty costs by country.

More than a quarter of larger businesses surveyed employ **more than 41** trade compliance professionals to manage their business globally.

Allocating trade and compliance resources

Forty-eight percent of all survey participants have 10 or fewer dedicated trade specialists. On the other hand, 29 percent of larger businesses have in excess of 41 dedicated trade specialists.

Approximately 15 percent of all companies in the survey do not have any full-time trade compliance specialists. This could be attributed to sharing resources with other functions and/or outsourcing the function.

The number of specialists suggests that in LATAM (which has substantially fewer staff than other areas), there is a high degree of outsourcing, and/or multi-tasking by staff from other departments.

Given that North American trade compliance functions are further up the maturity curve due to various factors including the enforcement environment, long standing free trade agreements and available duty planning opportunities, it is not surprising to see that respondents devote more resources to this region than any other.

How many full-time equivalent trade compliance specialists do you have in your business globally?

	Overall	Turnover above USD20 billion
0	15%	14%
1–10	48%	21%
11-20	10%	7%
21-30	4%	7%
31-40	2%	7%
41+	10%	29%
Don't know	12%	14%

Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015
Note: Charts may not add to 100 percent due to rounding.

In what region(s) are your trade compliance specialists located?

	Overall	Turnover above USD20 billion
EMA	84%	90%
North America	74%	90%
ASPAC	50%	80%
LATAM	34%	30%

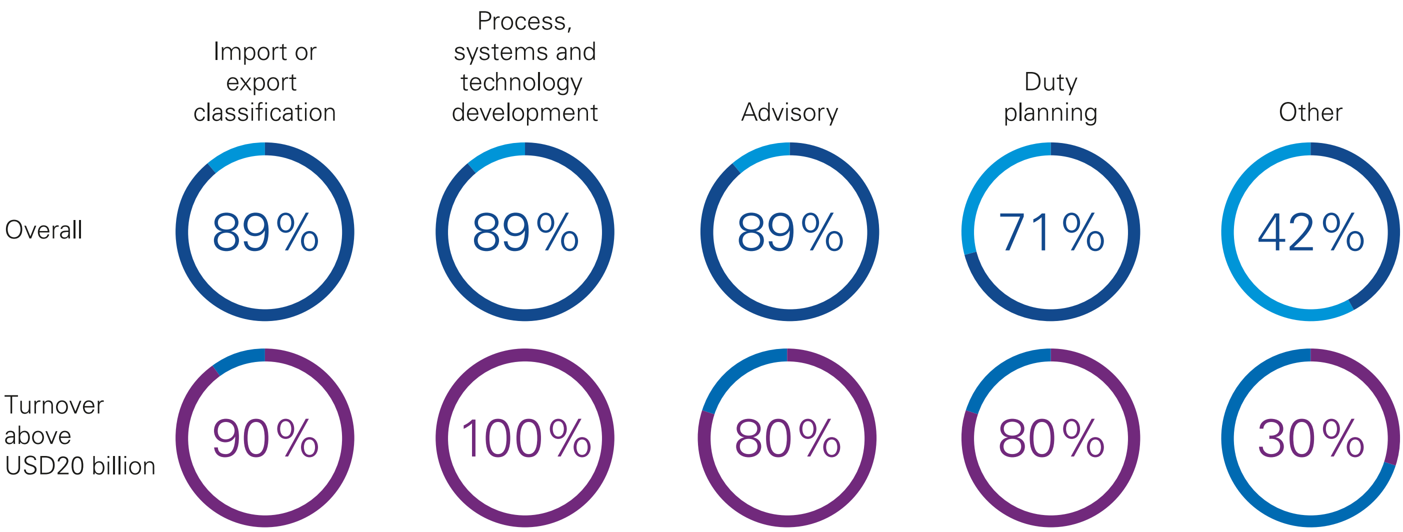
Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

Compliance versus planning: how specialists use their time

All companies taking part in the survey appear to devote similar amounts of time to each of the activities, with particular emphasis on the development of processes, systems, and technology. This focus and investment of time in the trade compliance function is a significant reason why trade compliance functions will continue to evolve and move further up the maturity curve adding more value to organizations over time.

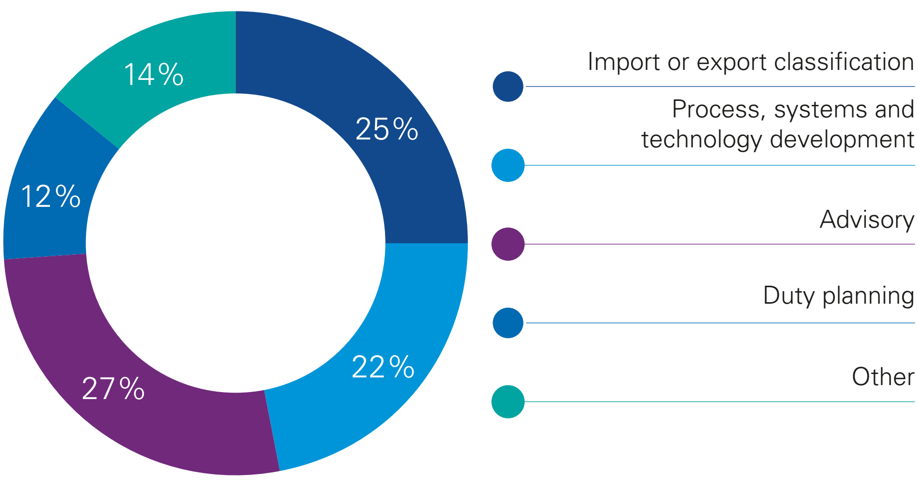
While focused on investing in process, systems and automation, the survey shows that many trade compliance functions must still attend to day-to-day operational tasks, such as getting declarations in on time, ensuring accuracy of declarations, and paying the right amount of tax. Subsequently, there is less time available to consider and act on softer activities such as duty and tax planning and working on relationships with third parties.

What is the range of tasks undertaken by your trade compliance specialists?



Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

Please estimate the percentage of time allocated to each task undertaken by your trade compliance specialists.



Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

The relatively low number of trade compliance specialists in LATAM could be due to a reliance on third-party agents and brokers in the region. Companies are in the midst of evolution on how they manage trade compliance, moving from outsourced models to more of an internal active governance approach.

Accountability and visibility

Finance, tax and legal departments are most likely to have accountability for the trade compliance function.

The most common reporting line for trade compliance, according to survey respondents, is to finance and accounting, while larger businesses surveyed are more likely to have global trade report to tax (36 percent). Smaller companies participating in the survey have a greater tendency to have trade compliance report to their legal department.

Six percent of all businesses and 14 percent of larger businesses are unclear as to who has ultimate accountability for trade compliance.

Who has ultimate accountability for trade compliance in your business?

	Overall	Turnover above USD20 billion
Finance and accounting	31%	29%
Legal	25%	0%
Tax	17%	36%
Supply chain or logistics	17%	21%
Compliance or ethics	0%	0%
Unclear	6%	14%
Other (e.g. procurement)	4%	0%

Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

Insight: maintaining strong governance

Most functions holding accountability for trade compliance tend to operate as global functions, have appreciation for compliance with regulations, and have authority over budgets. Over time, more global trade functions are likely to report into finance and tax, which arguably have an appreciation of the needs of trade compliance.

Trade compliance was historically performed by operational functions such as supply chain or logistics, and in 17 percent of respondents' companies, this is still the case. The ultimate decision for reporting will be determined by the particular business needs and culture of each organization.

Managing risks

There appears to be room for improvement in the identification and management of key trade risks as companies look to manage trade compliance globally.

Across all regions, almost half of all respondents state that their organizations have not identified the main trade compliance risks facing them. This finding could be linked to the lack of visibility of country specific activity for many trade compliance leaders.

Close to **50 percent** of respondents have not yet identified the key trade compliance risks in their business.

Insight: why risk management matters

The kinds of issues that matter include: how companies are valuing and classifying their products; whether they are claiming preferential treatment for items under free trade agreements or other special programs, lack of support for declarations; over-reliance on customs brokers; and whether their trade compliance professionals are well trained and competent.

When a company is not on top of risks there is a higher likelihood of mis-declarations and non-compliance.

Some common areas of trade risk, globally include:

- declaration of royalty and license fees
- customs arm's length pricing
- research and development cost sharing agreements
- unsupportable free trade agreement claims
- misclassification of imported products
- country of origin declarations and product marking
- changes to the harmonized tariff schedule.

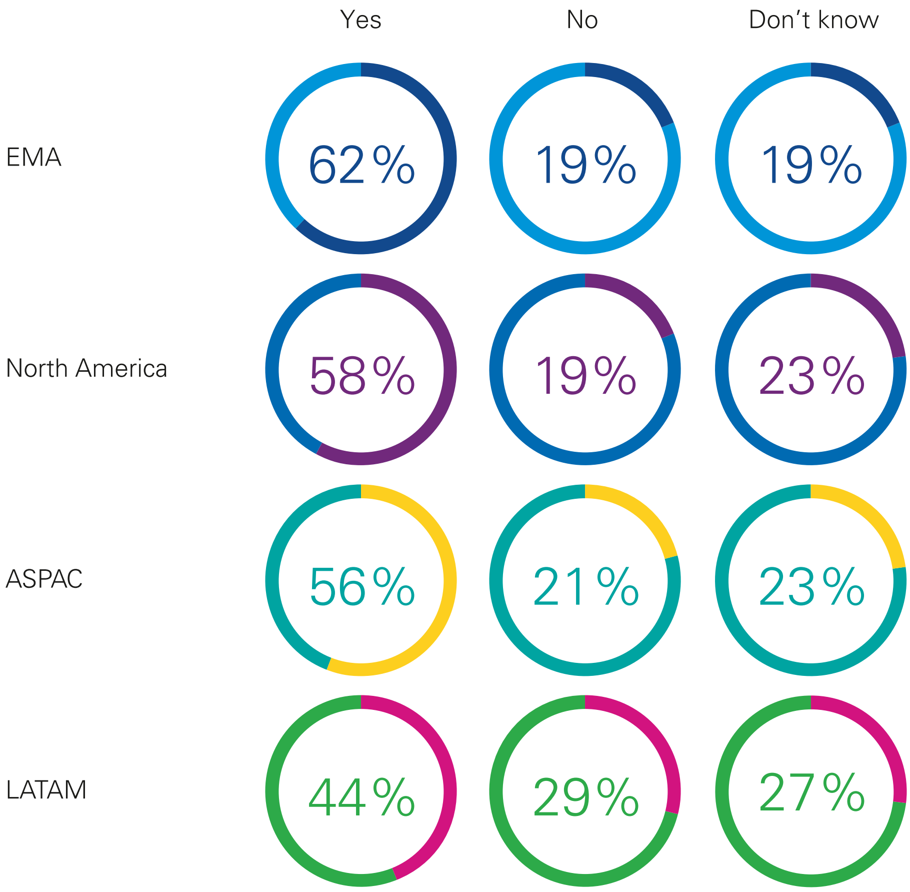
Perhaps unsurprisingly, most of the businesses in the survey that have identified regional trade compliance risks, have also established processes and controls for overseeing these risks, indicating a level of maturity in those trade compliance functions.

This year's survey reveals that the most common way to gain assurance over risk controls is through the use of internal self-assessments. For larger businesses, however, there is a strong preference for an assessment process that is independent from the trade compliance function, with 58 percent opting for either an external sourced assessment or through the use of the company's internal audit function. Larger businesses generally attach higher importance of audits to reinforce the policies and standards set by the function and are more effective in securing budgets to pay for them.

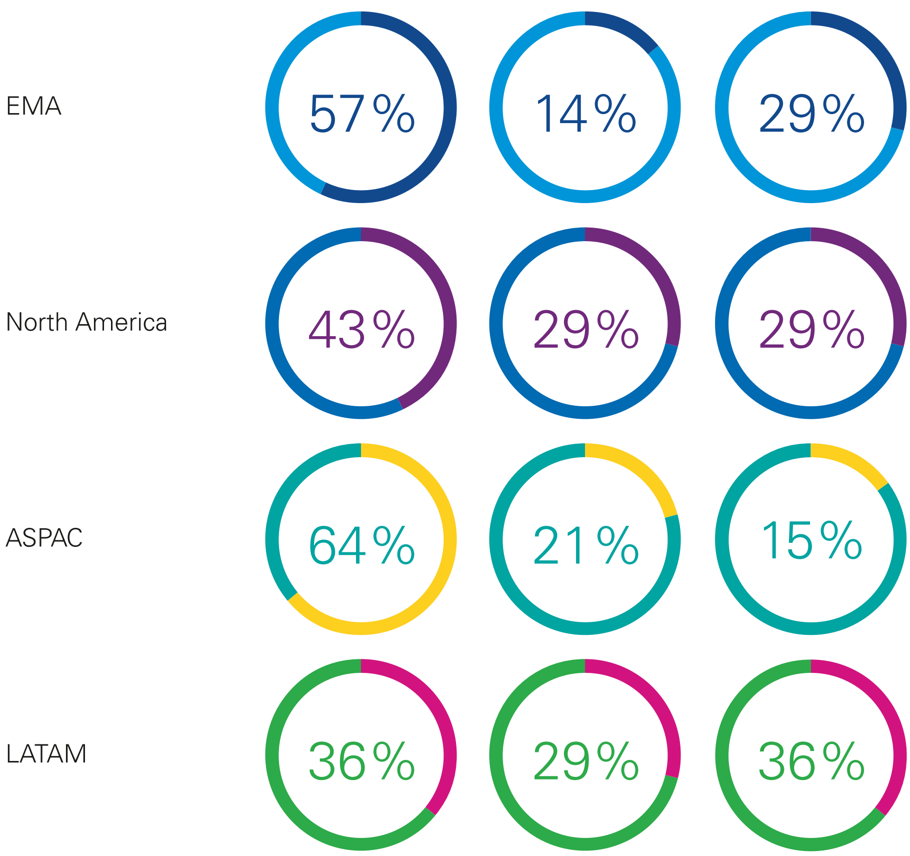
Continuing global trade liberalization will likely make risk assessments ever more critical, as customs authorities are expected to scrutinize imports entered conditionally duty free.

Have you identified the key trade compliance risks in the following regions?

Overall



Turnover above USD20 billion

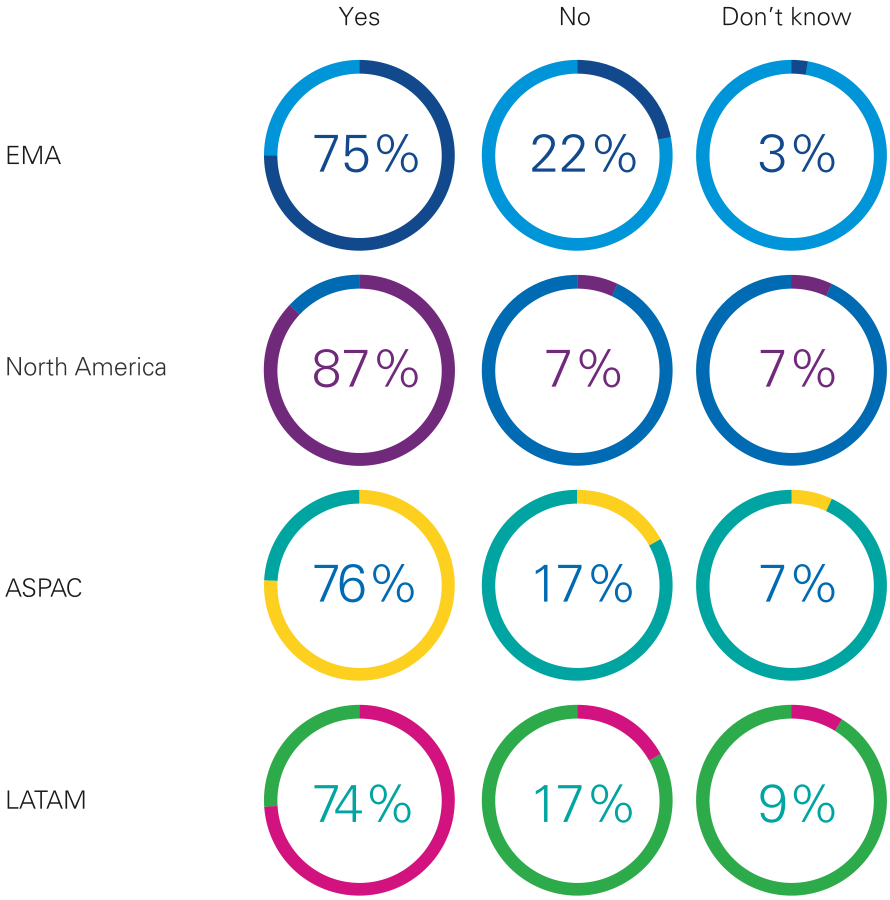


Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

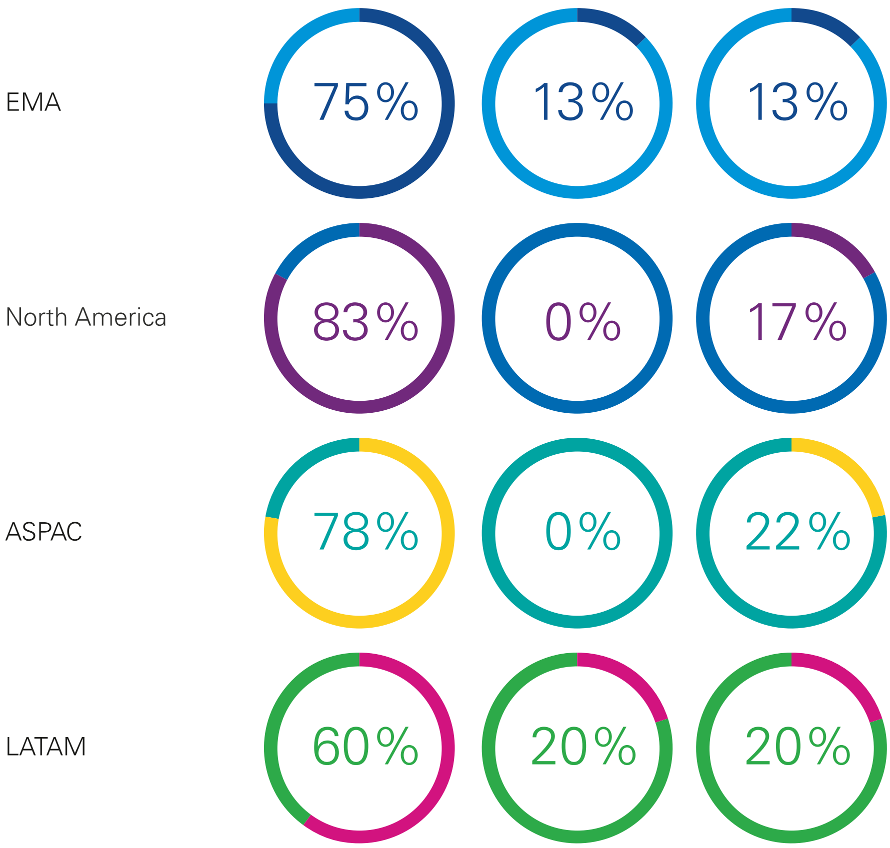
Note: Charts may not add to 100 percent due to rounding.

For those regions that you have identified the key trade compliance risks, do you have process and controls in place to manage those risks?

Overall



Turnover above USD20 billion

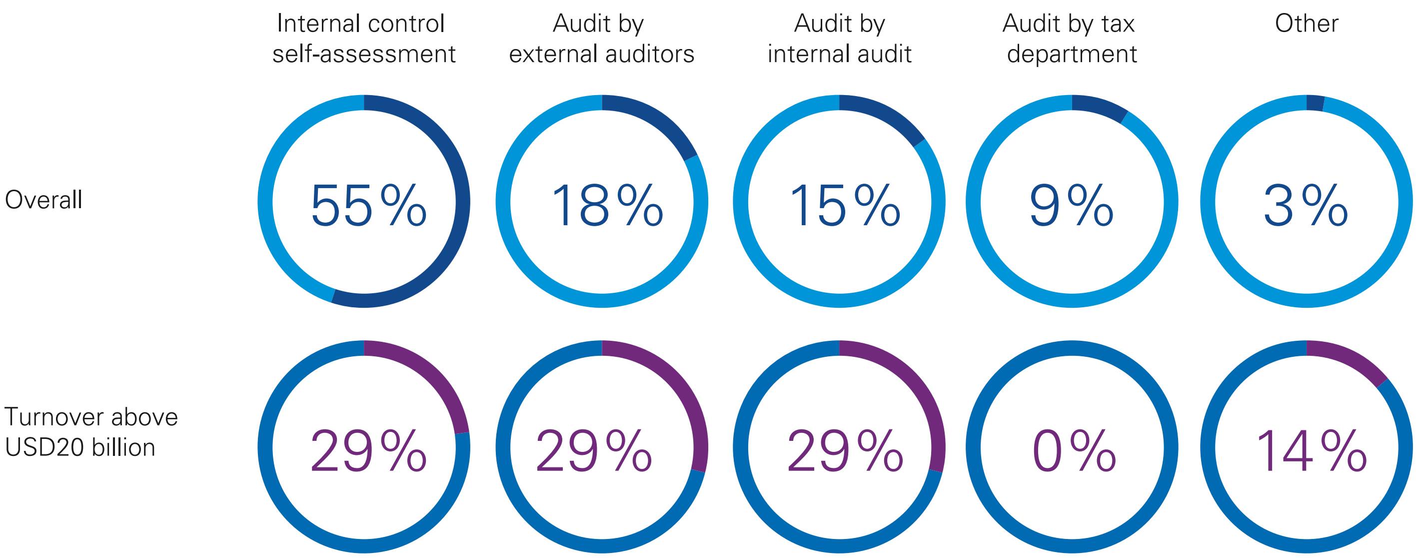


Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015
Note: Charts may not add to 100 percent due to rounding.

Insight: the value of external auditors

If you don’t have an audit process, you don’t have a program, and you can’t be confident that the controls are in place and being actioned correctly. In terms of leading best practice, an external trade compliance auditor is the first choice, internal peer-to-peer reviews the next best, with the internal audit function being a third option. A leading practice involves a balance of a large number of small internal audits, with external auditors covering the areas of highest risk and greatest strategic importance, plus peer-to-peer assessments.

How do you ensure that these processes and controls are embedded in the underlying business process?



Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015
Note: Charts may not add to 100 percent due to rounding.

Reporting and compliance models

As trade compliance functions mature, there is a move towards greater centralization

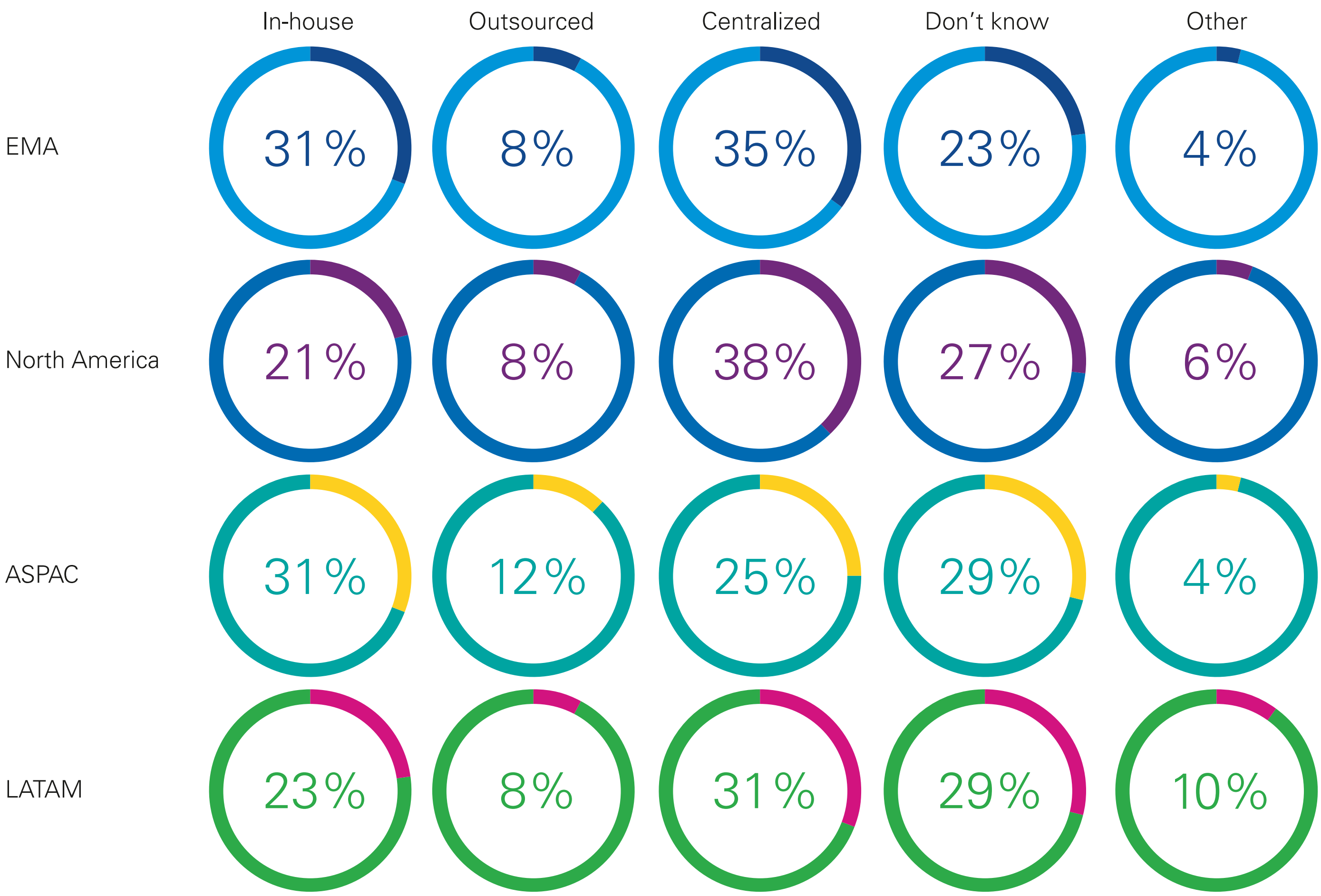
Approximately one-third of respondents say that trade compliance follows a centralized model in their organizations, with the exception of ASPAC, which tends to manage trade in a more decentralized manner. A significant proportion of the respondents state that they are unsure of their compliance structure, including 43 percent of larger businesses in North America. This is likely a result of hybrid functions where some tasks are managed centrally but others are the responsibility of the business units in country.

These results reflect the variety and opacity of organizational structures, with different degrees of centralization, decentralization and use of outsourced third parties. In some cases, the model will vary according to the business unit. Ultimately a move towards centralized control is preferable for the overarching governance function, in order to set global standards, carry out training and act as a general resource for each region and country.

The most common governance model cited for trade compliance is centralized. This trend to continue as trade compliance functions continue to evolve and employ more advanced technologies and automation.

What is the predominant compliance model in your business?

Overall

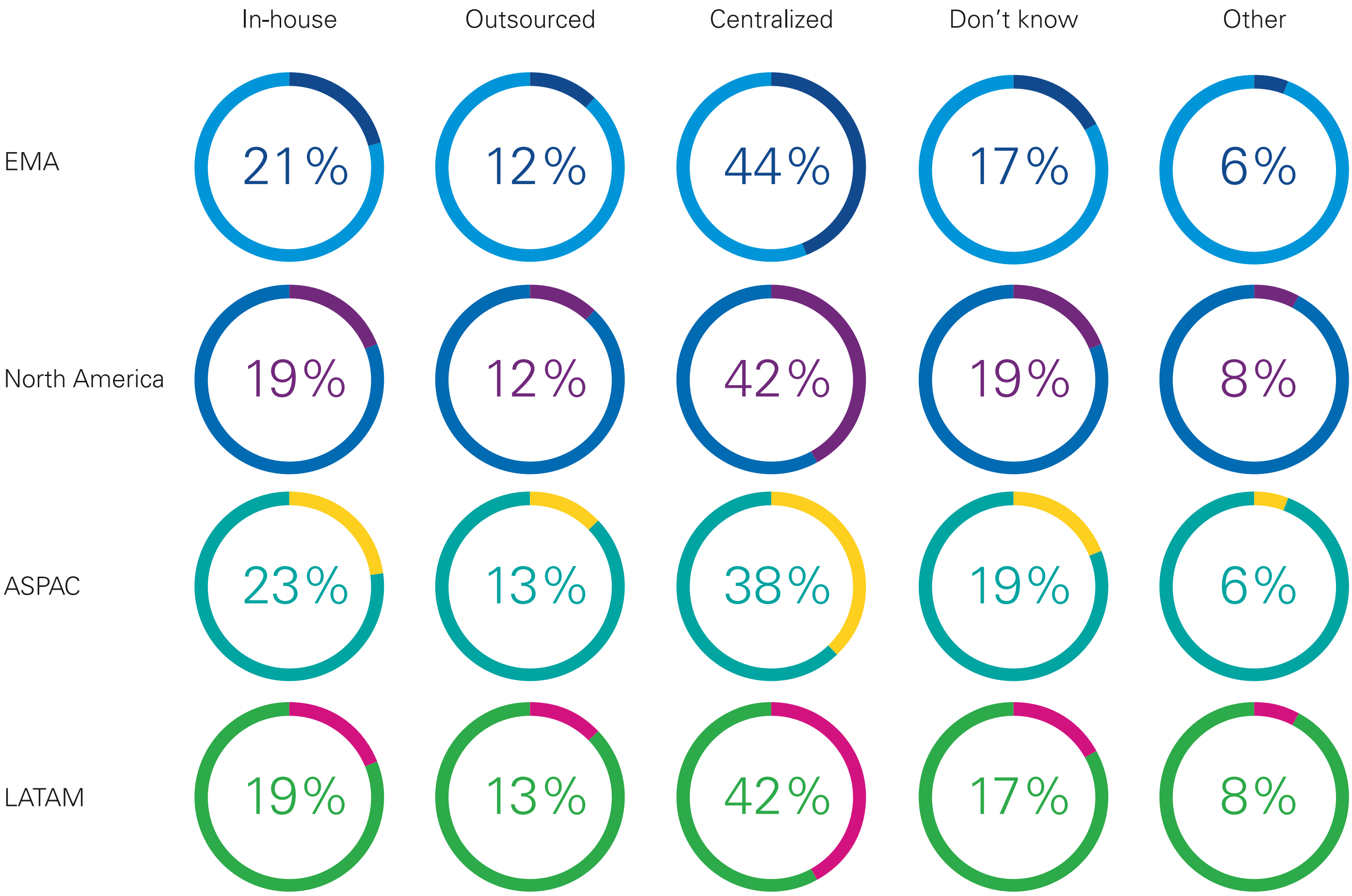


Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015
Note: Charts may not add to 100 percent due to rounding.

Looking ahead to 2018, respondents expect the trend for central governance to continue, with a slight rise in outsourcing by smaller companies in every region except ASPAC. There is a sense of uncertainty over what the future holds, even for larger businesses.

What do you expect the predominant compliance model to be in your business in 3 years?

Overall



Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015
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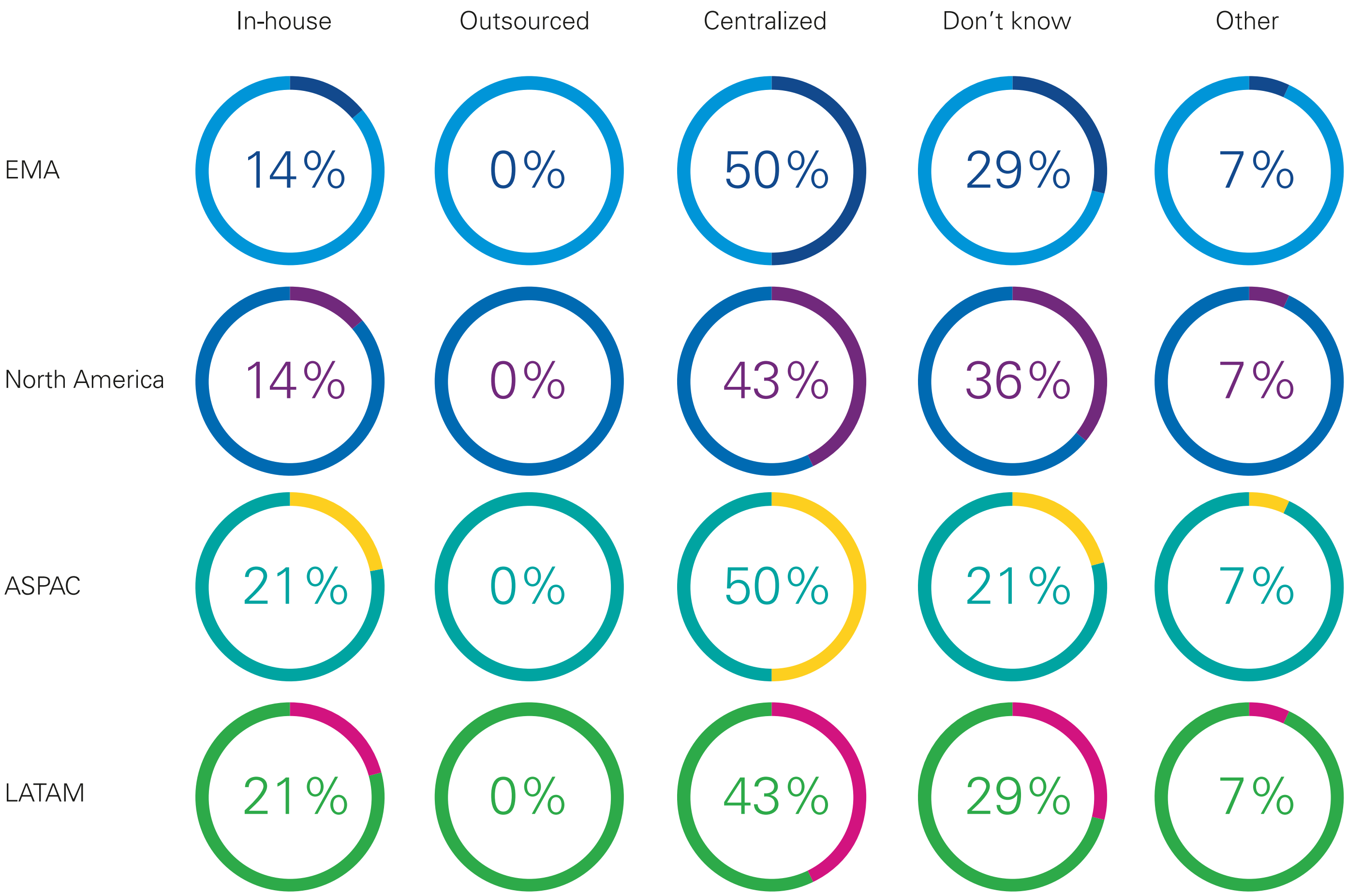
What do you expect the predominant compliance model to be in your business in 3 years?

Turnover above USD20 billion



Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

Note: Charts may not add to 100 percent due to rounding.

Investing in technology and resources

While there are a number of global trade management software and technology platforms, the most widely used solutions today are homegrown having been developed in-house over time.

Companies of all sizes are realizing the need for specialized technology and automation to manage global trade effectively in today's environment, with **71 percent** of all companies anticipating further investments.

Surprisingly, 29 percent of those surveyed say that their company does not use technology to manage trade compliance; while an additional 33 percent of companies state they are using homegrown systems to manage aspects of trade. Many of these homegrown systems could be adaptations of their enterprise resource planning (ERP) or warehouse management systems; in other case, companies could be piecing together manual processes with excel spreadsheets.

Of those companies using global trade management solutions, Integration Point, SAP GTS, Amber Road and MIC were the most frequently mentioned platforms. The global trade management solution market is evolving quickly with relatively new entrants from Oracle and Thomson Reuters, as well as continued new automation developments including Integration Point's Global Trade Visibility advanced analytics tool.

Which global trade management platforms do you currently use?

	Overall	Turnover above USD20 billion
Home grown/proprietary system	33%	50%
Integration Point	25%	21%
SAP Global Trade Services	19%	7%
Amber Road	17%	29%
Oracle Global Trade Management	4%	7%
MIC Custom Solutions	4%	14%
Other	8%	14%
None	29%	14%

Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

Note: Charts may not add to 100 percent as multiple responses allowed.

Insight: easing the daily grind

Automation can create value and efficiency when applied to most global trade activities. Some of the benefits realized include balancing income tax and customs requirements when setting inter-company pricing; using intelligent automation to self-classify and using data and analytics to manage by exception.

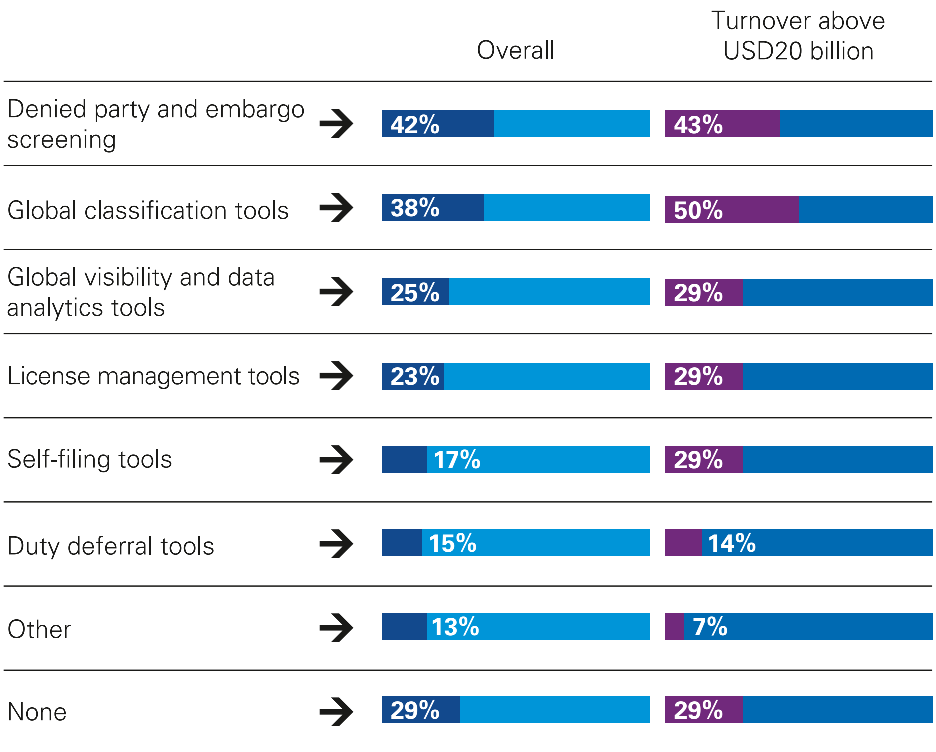
The survey responses show that larger companies make more of an investment in technology, which helps them handle the day-to-day activities faster, more efficiently, more compliantly, and with greater precision; thus in itself creating a competitive advantage. Even further, this enables trade compliance professionals to turn their hands to more strategic, value-adding tasks such as identifying and implementing more advanced planning programs to further drive down costs and standardizing the declaration process creating a competitive advantage for their companies.

Self-filing and duty deferral tools are being used 17 percent and 15 percent of all respondents, respectively. This is not surprising as these more advanced cost optimization mechanisms tend to only be implemented after the company has already addressed its daily compliance and operational needs.

This supports the theory that companies are better positioned to create competitive advantage through trade after the core compliance and operation functionality is in place including screening, licensing and classification tools.

Companies are using a wide spectrum of trade technology functionality with the greatest usage for managing classification and screening, which have historically been two of the higher risk and transactional intensive trade activities.

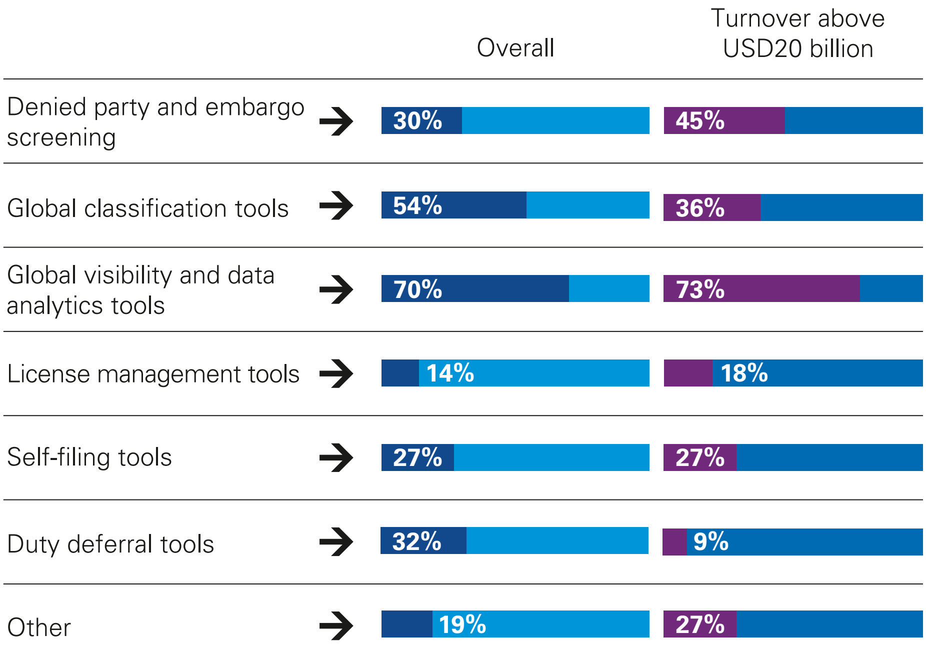
Which global trade management functionalities do you currently use?



Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015
Note: Charts may not add to 100 percent as multiple responses allowed.

Self-filing, free trade agreement and duty deferral tools are money-saving functionalities that are not extensively utilized.

Which functionalities do you expect to use in the next 3 years?



Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015
Note: Charts may not add to 100 percent due as multiple responses allowed.

Future technology investments

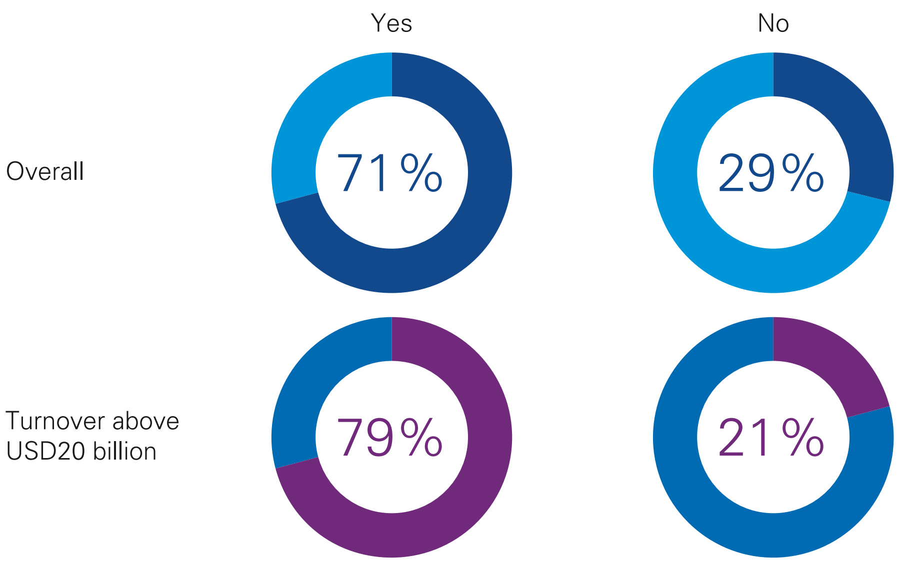
Global trade automation is becoming the industry standard. With the growing complexity and importance of trade, the use of trade technology and automation solutions have essentially become a business necessity.

Seventy-one percent of those surveyed intend to make capital investments in global trade technology over the next 3 years. Such investment could include deployment of new technologies, building in automated intelligence, expanding functional capabilities and/or expanding sourced global trade content.

There was an overwhelmingly consistent response that companies of all sizes will be investing in global visibility and data analytic tools over the next 3 years.

This emphasis on visibility and analytics is most likely due in part to the great strides made by some of the technology providers, including Integration Point's Global Trade Visibly tool (co-developed with KPMG's Global Trade and Customs Services) and to the need of global trade functions to manage risks and identify opportunities globally, and track and report performance with the use of value-added key performance indicators (KPIs).

Do you anticipate making further investments in global trade technology in the next 3 years?



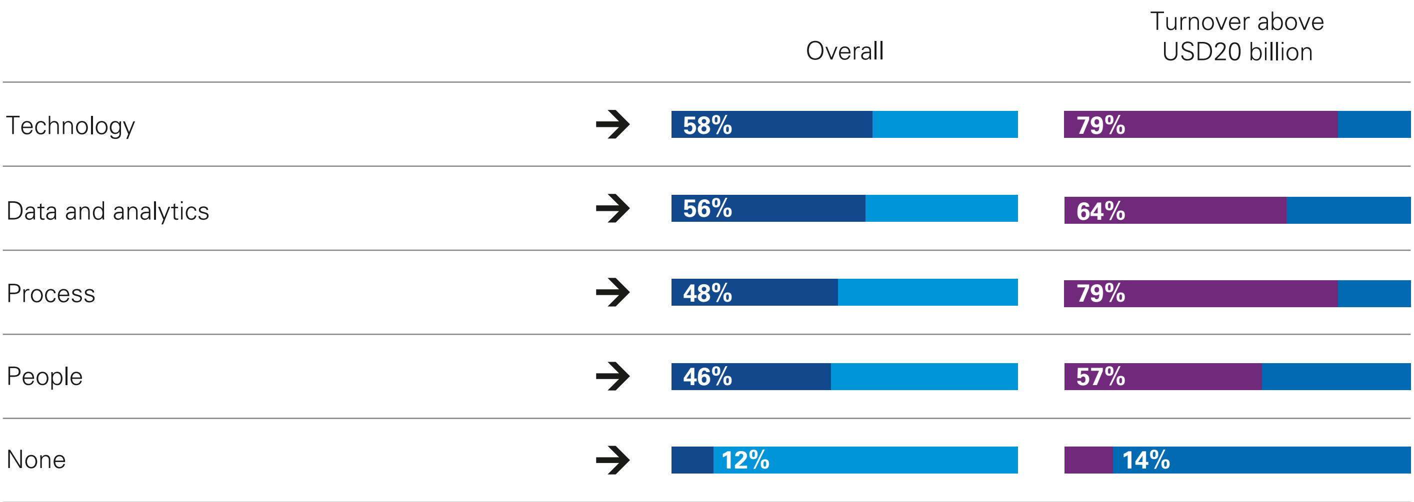
Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015

Wider investments up to 2018

Technology and data analytics take precedence over processes and people in the survey participants' future investment plans. Technology and data analytics are inextricably linked, with the latter becoming a 'fourth pillar' of a global trade program. System vendors are also trending towards more and more mobility-focused analytics, which should be seen as a key area for promoting investment in technology. Complementing the labor-saving potential of automation, 46 percent of respondents aim to invest more in people, likely with a focus to support more strategic initiatives as they move up the trade compliance maturity curve.

Respondents aim to invest in **data analytics** and global trade reporting.

Which of the following do you plan to invest in, in the next 3 years?



Source: 2015 global benchmark survey on indirect tax and trade compliance, KPMG International 2015
Note: Charts may not add to 100 percent as multiple responses allowed.

Insight: the value of good data

To keep the supply chain moving, trade compliance professionals need access to the right information at the right time, whether classifying vital components for manufacturing, providing customs authorities with accurate values, or determining the origin of new products. When data is not correct, assembly lines could be kept waiting, and finished products may be retained at ports, delaying delivery to customers.

Governments are increasingly expecting trade automation in the form of electronic or advanced cargo reporting, to enable end-to-end visibility throughout the supply chain. There are several sources of data, including internal trade management systems, ERP systems, third-party service providers, or customs, revenue and other government authorities.

It's not just about compliance. Data from import declarations can provide insight into how much the company spends on customs duties by country, region, business unit, supplier, manufacturer and product, enabling better understanding of potential customs exposure and ultimately reduced import costs. Trade data can also help evaluate performance of various partners including: customs brokers, freight forwarders, carriers and other logistics providers.

Risk management should also be enhanced, by focusing on inconsistencies in tariff classification, free trade agreement usage, country of origin declarations, or reported values. Access to global trade data also makes audits easier. Visibility into data on imports and exports globally can also help to identify a reduction of customs duties and fees, through free trade agreements, customs duty drawbacks, foreign trade zones or other duty deferral programs, or first-sale for export.

Finally, trade data analysis could also help assess the benefit of different logistics providers that may offer better freight, insurance or carrier rates or near-shoring production of certain products. It could also inform decisions over consolidation of import declarations or self-filing of import declarations, to reduce the landed cost of imported products.

Key actions for indirect tax and trade compliance leaders

What this 2015 survey underscores is that in many organizations the indirect tax and global trade functions are still evolving. There is still some way to go before most can not only provide the means to meet compliance obligations but are also able to provide world class governance and control and contribute to the organization's strategic thinking.

To meet these goals, leaders will need to consider how they can:

Create performance-driven cultures

Metrics link strategy to action, by helping ensure on what's most important for the organization. Global heads of indirect tax and trade compliance should reassess the key indicators they use, and build targets that can achieve compliance and also improve the business. For indirect tax, this often revolves around improving cash flow by collecting faster and more thoroughly, and only paying what's due. For trade compliance, it could be cutting the cost of goods sold, or making better use of treaties or free trade zones.

Build truly global functions

Appointing a global head is just the start. Organizations need standardized procedures, global systems and, crucially, oversight across every country and region. In addition to providing scale efficiencies and consistency, a centralized model ensures that specialists in indirect tax and trade compliance are making the key decisions. It also enables greater collaboration, transfer of good practices, and a focus on strategic goals.

Re-focus on risks

The risks facing these two functions can have far-reaching consequences for companies. In the case of indirect tax, errors or inefficiencies can have a huge impact upon cash flow, while inefficient trade compliance can seriously hinder the global supply chain. A renewed focus on risk management can help ensure that businesses are compliant (avoiding penalties and investigations) and consistent (through high-quality, independent audits).

Make the most of 'Big Data'

Data analysis is a word that's on the lips of every executive, but harnessing its power remains a major challenge. The respondents to the two surveys show varied approaches to technology, suggesting that many have yet to create a robust roadmap. Before investing big in new systems, indirect tax and trade compliance leaders should consider their future strategic role in their organizations, and ensure that they use technology to not only increase automation, but also to inform important decisions about cash flow and supply chains respectively.

How KPMG professionals can help you improve your management of indirect tax and trade compliance

KPMG Global Indirect Tax Services professionals offer a range of global indirect tax services

Advisory:

- **advising on the tax treatment and structuring of transactions and supply chains**
- **advising on the indirect tax consequences of entering new markets and undertaking corporate transactions**
- **studying, implementing and managing customs duty savings opportunities, including warehouses/zones, reliefs, customs value reduction and duty rate reduction**
- **assisting in reducing indirect tax costs and in managing transfer pricing matters and related valuation issues**
- **supporting businesses subject to tax audits or other investigations by tax or customs' authorities**
- **in certain countries, KPMG member firms can also advise on the legal aspects* of indirect tax, including contract review, dispute resolution and litigation.**

Governance, process and technology, analytics:

- working with in-house tax teams to help develop and execute effective indirect tax management strategies including effective systems, processes, controls and governance
- designing, deploying and optimizing global trade management systems and trade automation
- using cutting edge business transformation tools to design Target Operating Model compliance organization and governance strategies
- indirect tax, trade compliance and non-tax data analytics
- tax engine implementations.

Compliance:

- advising on effective global compliance strategies
- compliance outsourcing*, in-sourcing and co-sourcing
- tax management services
- reverse audits
- global VAT recoveries.

* Legal and outsourcing services may not be offered to US SEC registrant audit clients, or where otherwise prohibited by law.

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As a Partner in KPMG in the UK's Indirect Tax team, Chris, assists clients with the strategic management of indirect tax, through better process management and tax technology, with a focus on driving greater efficiency and effectiveness through automation. Chris is responsible for a large portfolio of UK and international clients and for the last 8 years has been closely involved in creating and evolving the UK Indirect Tax Process & Technology team. As head of this group, Chris has led the development of the KPMG approach to both domestic and international projects, including the development and use of bespoke VAT compliance tools and helping businesses implement third party tax engine solutions. Chris has wide experience in business issues and tax requirements for global companies and has managed global indirect tax process improvement projects to develop standardized, consistent approaches to manage indirect tax risk.

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Doug is a Senior Partner in the US firm and Global Practice Leader for KPMG's Trade and Customs Services. He has more than 20 years of experience in Global Trade industry assisting a broad range of clients in developing corporate global trade governance programs and securing duty reduction and cost savings. Doug leads the firm's initiative in deploying technology and supporting business processes in a transformational way for global clients.

Doug leads a network of more than 325 trade and customs professionals around the world assisting a wide range of manufacturers and distributors with all aspects of their import and export compliance, global trade technology, supply chain operations and trade development concerns. He has been responsible for leading the development and delivery of a comprehensive range of trade and customs services. These include: advising on issues relating to import and export compliance, global trade management systems, foreign trade zones, duty drawback, first sale, technology deployments, free trade agreements, as well as customs valuation and NAFTA planning assistance.

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Lachlan has been the leader of KPMG's Centre of Excellence for Indirect taxes in China since 2011, and prior to that, he was the leader of KPMG's Indirect Taxes and Tax Controversy practices in Australia. He is the Asia Pacific Regional Leader for Indirect Taxes.

Lachlan is regularly invited to provide his expertise to the Ministry of Finance and State Administration of Taxation in relation to the VAT reform program in China. He is applying many of his experiences with similar tax reforms in Australia for the benefit of multinational clients in China.

Lachlan holds a Masters of Taxation with First Class Honours, together with combined Economics and Law degrees (also with Honours), all from the University of Sydney. Lachlan has also co-authored the leading textbook on capital gains tax in Australia, as well as authoring chapters for textbooks on income tax and GST.

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John is the Chair of the Commodity Tax Policy Committee for the Chartered Professional Accountants of Canada association, is a participant in the GST Leaders Forum and has participated in indirect tax technical advisory and working groups at both the OECD and WTO. He is a former senior tax policy officer with the Department of Finance Canada and has worked for the European Commission in Belgium and at the Canada Revenue Agency.

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