Chief Tax Officer Outlook

Top-of-mind issues for tax leaders — third global edition

September 2016

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Never before has the tax department played such an integral role in the success of the business. Chief tax officers (CTOs) are expected to align tax with business goals, drive strategic value, increase transparency, and improve the efficiency of tax operations. This publication is designed to highlight top-of-mind issues for tax executives and the ways tax leaders are addressing these opportunities and challenges.

Topics addressed in this edition[1]

- **Tax department skill sets and succession planning**
- **The tax leader's relationship with the audit committee**
- **Transfer pricing and country-by-country reporting**
- **Integration with IT and tax data management**
- **Brexit: the tax impact for businesses**

[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.

Tax department skill sets and succession planning

Questions to consider

— How do you develop talent and foster long-term career development?

— How are you structuring your tax department roles?

— Have you experienced success by training your staff beyond their job responsibilities?

Managing the career paths of talent in the tax department is an ongoing struggle for tax leaders who are currently examining their staffing compositions, processes, and functions. Part of this challenge includes motivating employees to broaden their skill sets to include areas that could be outside of their roles. This focus on skills allows team members to step outside of their comfort zones and build the skills and relationships beyond tax that are necessary for long-term success.

Tax leaders are contemplating different approaches to encourage broader skills development, including rotating senior staff if adequate support is available, involving staff more in team decisions, and embedding staff with internal audit teams. Some leading practices regarding training shared by tax leaders include sending tax staff to centralized finance group training sessions, organizing departmental sessions where staff returning from seminars share key points, attending local training opportunities, and inviting those, such as former U.S. Treasury leaders, to come in and speak to the team.

Tax leaders are also focused on succession planning and believe that a way to advance careers of high-performing millennials is to provide them with opportunities to expand their skill sets early in their careers and interact more regularly with the broader organization. When succession planning is necessary, finding a replacement with the right balance among technical skills, leadership, and communication is critical. Leadership qualities are the most important yet often the most difficult skills to find, as soft skills and partnering abilities are more difficult to teach than technical capabilities that can be learned or paid for with advisers.

The tax leader's relationship with the audit committee

The tax leader's relationship with the audit committee has evolved, and tax leaders are being asked more frequently to attend and present to their boards on areas such as tax disputes and contingency reserves, benchmarking effective tax rates, the company's overall cash tax position, and scenario planning for potential changes in the tax code. Audit committees were previously viewed as passive recipients of information from the tax leaders, except where tax had been identified as a material weakness. With tax now viewed as part of the value chain within organizations, audit committees are more focused than before on issues such as the base erosion and profit shifting (BEPS) initiative and the proposed regulations under section 385.

Some tax leaders are being asked by their audit committee to create formal tax governance policies that outline roles, procedures, and a defined perspective on tax risk. Formalizing a tax governance policy can be challenging given that tax leaders are tasked with finding ways to both lower their effective tax rate and manage risk at the same time. Tax leaders may find benchmarking against their peers in this area beneficial as boards are often interested in industry comparisons and leading practices. Some audit committees have presented the tax leaders with benchmark data and a request to provide an analysis of the peer group.

Audit committees are allowing the tax leaders to use the company's external auditors for non-audit work more so than in the past. The audit committee typically monitors this closely, often setting spend limits while preauthorizing prescribed services to reduce the requirement to provide separate approvals.

Questions to consider

— How often do you present to the audit committee?

— Do you have a formal tax governance policy?

— Which tax issues are audit committees most focused on?

— Have you considered using benchmarking?

Transfer pricing and country-by-country reporting

Following the recent releases from the Organisation for Economic Co-operation and Development's BEPS action plan, transfer pricing documentation requirements have become a primary concern for tax leaders, with the greatest focus on both public disclosure of information and having consistency in the organization's narratives. While country-by-country reporting data is subject to information exchange policies, transfer pricing documentation is not. Fearing that information may go public, tax leaders are developing new transfer pricing governance procedures and internal processes to centralize control and ensure consistency among the master file, local file, and other documents. To secure files, some tax leaders are not allowing local teams to access master files and staff procedures are being drafted on how to handle requests by local authorities.

To drive consistent narratives between master and local files and other company documents, tax leaders are involving, or planning to involve, a range of stakeholders, including business units, investor relations, internal audit teams, information technology (IT), financial controllers, and external reporting teams to review company disclosures. With transfer pricing data access limited, tax leaders plan to brief business units and other stakeholders on master file data, both to explain the different outcomes they may see and to avoid issues in case the data is made public. Monitoring and reviewing of transfer pricing policy content and implementation is also being increased. Some tax leaders have included a direct partnership between tax and finance in their governance structure, while others have established a full-time review group for global transfer pricing relationships focusing on areas of highest risk.

? Questions to consider

— How are you preparing for country-by-country reporting in addition to master and local file requirements?

— What level of detail are you planning to include in the master file?

— How are you operationalizing transfer pricing policy to drive compliance?

— How are you messaging these issues with senior management?

Integration with IT and tax data management

A key goal for many tax leaders is greater data management within the tax department, which can be achieved through better integration with the IT function. Having the ability to then share that data beyond the tax department is also a primary objective, with some implementing data warehouses to manage large sets of data that flow into and from the tax function. Some leading practices in this area include data access, sharing, and having a portal that allows central tax department access. Advanced departments are moving beyond the question of whether or not to warehouse and instead are considering new information exchange software packages that allow tax departments to read, manage, and set rules for data owned elsewhere. Tax leaders generally believe that the best data management tends to spring from primarily IT-funded projects with finance and tax collaborating and providing input. When tax is the only funding provider, it is difficult to achieve the desired functionality, and tax leaders feel that tax should avoid managing or producing data, no matter how expedient that might be, and instead remain an advocate for the data.

To create opportunities to demonstrate the value of tax, as well as help to ensure a seat at the table for broader business decisions, tax leaders are focused on strengthening relationships with other parts of the business. IT has become an increasingly important partner to tax departments, and in order to improve tax department processes through technology, tax leaders are working toward full integration with the IT function. Without this collaboration, determining what is possible for data management and automation is much more difficult.

? Questions to consider

— How are you thinking about tax data management at a holistic level for your department?

— How do you ensure that data is consistent across the planning, provision, and compliance processes?

— Have you considered implementing a shared resource between tax and IT?

Brexit: the tax impact for businesses

On 23 June 2016, the UK electorate voted in favor of leaving the European Union (EU). If 'Brexit' proceeds to fruition, the impact on the UK tax system (and any organization who does business there) could be significant as it is intertwined with EU directives and law across the areas of direct tax, value-added tax, customs and excise duties, and trade agreements.

A few months after the vote, tax leaders and other business executives still have more questions than answers when it comes to the impact that Brexit may have on their businesses. One key observation is that all multinational organizations will be affected by the fact that the UK will no longer be party to binding arbitration under the EU enhanced convention. This could result in slower resolution of TP disputes, mutual agreement procedure negotiations and corresponding adjustments. While BEPS Action 14 may make arbitration more common outside of the EU, implementation of this will take time.

Once the UK notifies the EU of its decision to leave, a 2-year exit negotiation period will begin. The outcome of this negotiation will potentially have a significant impact on the UK tax system, as European law impacts UK tax law in two main ways. One potential scenario is that the UK would cease to be a member of the EU, if no agreement is reached during the 2-year period.

Uncertainty spreads to many other tax issues arising from Brexit. As tax leaders begin to explore the potential impacts, some are already starting to take action, testing various scenarios and assessing the tax implications on their unique business circumstances.

? Questions to consider

— If you restructure your organization,, will you face exit tax costs on transition?

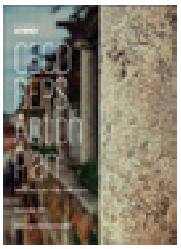
— How might an exit affect your withholding tax rates under either domestic law or relevant double tax treaties if a European parent/ subsidiary directive were no longer available?

— Will you need to review pricing policies for changes in tax or costs?

— How will you deal with employment policy shifts if Brexit comes to fruition and UK law diverges from the rest of the EU?

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 tax leaders. 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.



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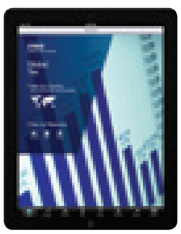

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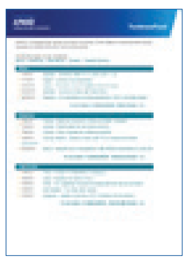

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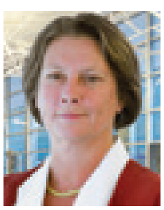

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