



# Designing an indirect tax function that's fit for the future

**Getting down to business with indirect tax**

KPMG International

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For today's indirect tax leaders, the pace of change is quickening and complexity continues to escalate. Amid finance function transformations, evolving regulation, and rising tax audit pressure, indirect tax teams must manage huge volumes of data and reporting obligations from multiple sources and stakeholders to ensure compliance and, increasingly, to contribute strategic value. How can indirect tax executives guarantee that their functions are designed to meet today's demands and the challenges of the future?

Based on the work of leading global companies, designing a tax function that's fit for purpose starts with a detailed examination of your indirect tax operating model — how it's governed, who's responsible for what, how risks and data are managed, and how people, processes and technology are deployed. The first steps are to assess each of the model's parts to see where you are today, and where you want to be tomorrow. The next step is to define the appropriate investments in people, processes and technology that you'll need to bridge the gaps between your current and future states. Based on this analysis, you can chart your path toward an indirect tax function that's built for success in the years to come.

# Managing a world of change — inside and out

An array of internal and external forces is shaping the blueprints for tomorrow's ideal tax functions. Chief among these factors are ongoing changes in the following areas.

**Evolving finance functions:** Most of the world's global companies are continuing to look to reduce the cost of finance operations, whether through outsourcing, co-sourcing or shared service center models. The greater automation and standardization that come with centralization aim to reduce costs and improve processes. Inevitably, as local finance capability disappears, the delivery of indirect tax compliance needs to be reassessed through a similar lens. But as the ability to tap the local knowledge and tax authority relationships becomes more remote, indirect tax executives are challenged to develop new ways to establish confidence that their compliance obligations are well managed in all locations.

**Evolving tax authorities:** The world's tax authorities are moving quickly to take advantage of new technologies and data analytic techniques to enforce compliance. As tax authorities adopt increasingly sophisticated data-driven techniques to assess risk and target audits, companies are expected to provide digital tax filings and electronic data in a rising number of tax jurisdictions, but in a range of differing, localized electronic formats. The introduction of macro level country-by-country tax reporting coupled with OECD prescribed, transaction level SAF-T like reporting is presenting immediate challenges in managing information flows. With expectations that periodic tax reporting will be replaced by real-time reporting over the next decade, businesses need better, more reliable processes for generating immediate tax information, and efficient data management is becoming even more complex.

**Evolving skill sets:** Advances in technologies such as robotics, artificial intelligence and machine learning are changing necessary skill sets and will transform how finance function activities such as Accounts Payable are conducted.

Future indirect tax executives will have less need for the depth of technical indirect tax knowledge they required in the past. Increasingly intelligent software will not only be able to interpret and apply indirect tax rules across the world's regimes, it will also be able to adapt its understanding, for example, in response to new court decisions or legislative change. Indirect tax executives will need bring a more strategic, evaluative understanding to the functional risks and opportunities that technology and data analytics will enable both in the tax function as well as wider finance function.

**Evolving accountabilities:** As the amounts of tax paid by large corporations have come under increasing scrutiny, indirect tax executives are being called on to answer questions about their companies' indirect tax positions by senior management, boards and a range of external stakeholders, including investors, the media and the public. A rising number of tax authorities are inquiring into companies' tax governance and strategies as part of their assessment of tax compliance risk. At the same time, indirect tax executives are increasingly expected to recognize strategic opportunities and pursue them in partnership with the business. Along with new technology-related skills, indirect tax executives will need to develop their abilities in cognitive areas like communication, negotiation and change management.

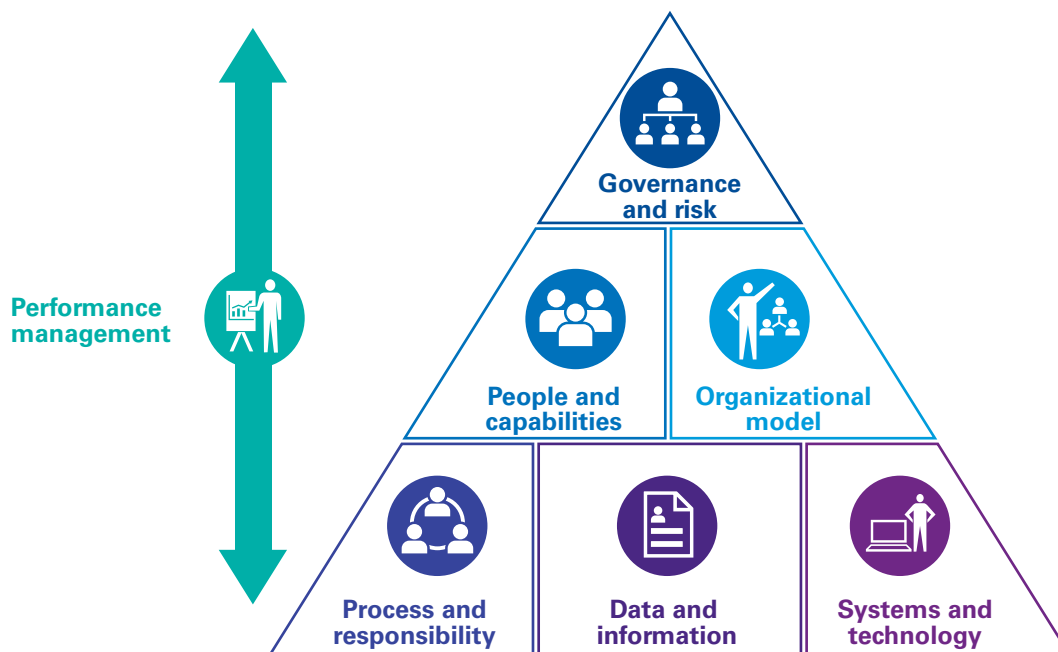
Overlying all of these driving forces is the continuing spread of indirect taxes, as the vast majority of countries in the world (except the United States) have or plan to establish indirect tax systems and as indirect tax bases of current regimes continue to broaden.

There is no doubt that indirect tax functions of the future will look significantly different than they do today. But for indirect tax executives struggling with the day-to-day challenges of meeting their current responsibilities, determining their function's future design is a daunting task.

# The indirect tax operating model: assessing the key components

Indirect tax professionals with KPMG's member firms recommend a measured approach that breaks the design process into manageable components based on the key elements of an indirect tax function's operating model.

By defining the current and desired future state of each of these elements, the steps you need to take to reach that future state start to become clear.



Source: KPMG International, 2016

The components of the indirect tax operating model include three strategic components and three enabling components:

— **Strategic components**

1. Governance and risk
2. People and capabilities
3. Organizational model

— **Enabling components**

4. Process and responsibility
5. Data and information
6. Systems and technology

These six operating model components are discussed in more detail on pages 3 and 4. The seventh component — performance management — involves setting clear key performance indicators (KPI) to measure and demonstrate the value contributed through an indirect tax function's operating model. For details on this component, read the companion article in this series, [Key performance indicators driving indirect tax value](#).

# Charting your course for the ideal future state

The operating model's components should work together to create an indirect tax management structure that delivers a single, clear view of performance, a strategic platform for making business decisions, comprehensive and efficient compliance processes — and above all, peace of mind that these objectives are being met.

## 1. Governance and risk

This operating model component involves the oversight required to direct the tax function and the enabling culture (behaviors and values) required to deliver the operating model. It also includes the key tax risks, mitigating factors and tax control framework. For this component, an ideal future state might be characterized by:

- a documented tax policy and risk management framework
- an organization-wide view of indirect tax as a key business partner
- controls embedded and monitored across business processes.

Barriers to achieving these ideals may include difficulties in gaining management buy-in and engagement, engaging with stakeholders in the business on defining controls that are suitably proportionate to levels of tax risk, and dealing with ongoing regulatory and business model changes. However, the development of metrics to support responsibilities and accountabilities can fuel better discussions and engagement with senior management. In addition, regulatory change can serve as a catalyst for transformation by providing a business case for investments in people, processes and technologies.

## 2. People and capabilities

What employee profiles are needed to deliver the operational model in terms of skills, capabilities and training needs, retention and engagement strategies, and succession planning? Ideally, the indirect tax function of the future would:

- assess resource requirements against both short- and long-term needs
- leverage resources and specialized capabilities from other functions where possible
- set clear career development paths for all indirect tax function roles.

As the role of indirect tax executives changes from technical expert to data scientist and business partner, their skills and the skills of the teams that support them need to evolve. Upgrading the function's mix of resources and skills can

improve career opportunities and boost retention. It can also encourage more movement of people with tax, finance and analytic skills between the indirect tax function and the business, improving the organization's store of knowledge of indirect tax and how it creates value.

## 3. Organizational model

The indirect tax function's number of full-time employees, their roles and reporting lines, and the global sourcing and location strategy comprise its organizational model. Leading practices in this area would see:

- the function's organizational model aligned with the broader tax function strategy
- clearly defined roles and responsibilities
- centralized finance functions (global business services, shared service centers) used to put in place end-to-end tax processes.

Achieving this ideal state often involves resolving conflicts between global versus local accountabilities. It also entails promoting more awareness and visibility of the indirect tax function's needs and value-driving potential across the tax department and the wider business. Once achieved, global versus local conflicts can be erased, gaps in accountabilities can be closed, and opportunities can arise to embed other resources in the organizational model, for example, through business partnering and internal audit.

## 4. Process and responsibility

Closely linked to the strategic component of governance and risk, this enabling component incorporates the key processes needed to deliver the tax operating model, including ownership and governance, operational responsibilities, and policies. It also encompasses the processes that drive efficiencies in practice, cost and levels of service. In an ideal future state, process and responsibility might include:

- standardized global tax processes with clear and commonly understood responsibilities and accountabilities
- comprehensive process documentation
- tax function activities focused primarily on adding value.

The lack of a board-approved governance framework or a scarcity of resources to deal with business and system change can impede efforts to enable these capabilities. But success on this component can produce direct benefits in risk management, efficiency and cash flow.

Embedding indirect tax within the business can open opportunities to push routine work down to other parts of the business and free indirect tax resources for higher-value strategic activities. Improved data quality and documentation can also promote better relationships with tax authorities by instilling confidence in your ability to get the numbers right.

## 5. Data and information

This component of the operating model comprises the governance of data, information ownership and quality; the effective, efficiency of delivery of data to the business; and the use of information to support decision making. Leading practices in this area would see:

- reliable data collected only once
- tax controls built into master data processes directly
- one, tax-sensitized chart of accounts.

Advancing to this state can be frustrated by the lack of standardized data formats, multiple data owners and processes operating in parallel, and poor management of master data. Enhancing data quality can drive better risk management and efficiency, while increasing centralization can vastly improve and streamline data management. In turn, the improved access to and visibility of data allows indirect tax teams to identify problems earlier, increase levels of automation, leverage solutions across the organization more broadly, and add value by contributing higher quality data and analysis to support business decisions.

## 6. Systems and technology

This component includes the core financial accounting platform, together with other systems that provide the required data to deliver tax processes; dedicated tax technology; and the infrastructure architecture and support model. In an ideal future, the indirect tax function's systems and technology supports would include:

- a global tax technology strategy and roadmap to improve automation and control as finance systems evolve
- automation of key tax calculation and tax reporting processes
- a tax data warehouse as a single source of tax reporting data, and the deployment of workflow technology.

As with the other two enabling components, systems and technology improvements are key for driving automation, standardization, control and efficiency, and for enabling tax issues to be managed proactively. However, indirect tax leaders often have little control of or input into their company's technological changes. By defining your indirect tax function's gaps and articulating the potential benefits of bridging them, indirect tax executives can make a solid business case for engaging in business transformation decisions to ensure indirect tax is aligned with wider enterprise IT initiatives.

## Leading practices — is your indirect tax operating model fit for the future?

|                                   |  |
|-----------------------------------|--|
| <b>Governance and risk</b>        | <b>Board approved and documented tax policy and risk management framework.</b>                   |
| <b>People and capabilities</b>    | <b>Clear career development paths and training program available.</b>                            |
| <b>Organizational model</b>       | <b>Organizational model designed to take into account tax strategy, risk and business needs.</b> |
| <b>Process and responsibility</b> | <b>Standardized and documented global processes with clearly defined responsibilities.</b>       |
| <b>Data and information</b>       | <b>No re-work of data required and data can be relied upon by tax.</b>                           |
| <b>Systems and technology</b>     | <b>High level of automation and range of tax technology implemented.</b>                         |

Source: KPMG International, 2016



In summary, the dynamic business and regulatory environment will continue to present indirect tax functions with new and ever more difficult challenges. Responding to these pressures can open opportunities to shift your indirect tax function's focus from compliance to adding real economic value to your organization. While the path forward may seem unclear, taking a step-by-step approach that focuses on each operating model component in turn will get you well on your way to an indirect tax function design that's truly fit for the future.

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