A look inside tax departments worldwide and how they are evolving

Summary report:
Global Tax Benchmarking Survey 2016

KPMG International

kpmg.com/tax

KPMG International's 2016 Global Tax Benchmarking Survey offers a snapshot of the structure, governance, priorities and performance measures of tax departments today — and delivers insights on how leading tax departments expect to transform over the next 5 years.

For tax executives of international companies, benchmarking against comparable tax departments can be a powerful tool for reflecting on organizational structures and competencies.

What does the current survey tell us? Compliance and risk management are clearly the top priorities for today's tax leaders, and the tax department's contribution to strategic value now seems to be overtaking priority over cost minimization in many areas.

Looking ahead, companies appear more or less satisfied with their current sourcing models but less satisfied with the ability of their companies' systems to provide tax data. Many respondents expect their companies to invest in technology changes and, to a lesser extent, tax software. When asked what investments they'd most like to see, however, investments in additional personnel tops the list, with tax technology and process optimization not far behind.

This report presents a brief overview of selected key findings from this year's survey and some important takeaways for tax leaders.

Contents

About the survey

- KPMG International's Global Tax Benchmarking Survey 2016 charts the evolution of leading tax departments and identifies operational benchmarks for high-performing tax teams.
- The selected findings in this summary report are based on a survey of 294 people in charge of tax policy and operations of companies in all major industries based in 36 countries worldwide.
- Over two-thirds of respondent organizations are public companies. About the same proportion has up to 5 billion US dollars (USD) in annual revenue or turnover, and a third has more than USD5 billion in annual revenue or turnover. Over 40 percent of respondent organizations have more than 10,000 employees globally. Almost 60 percent have branches, subsidiaries or other permanent establishments in more than 10 countries.
- Survey participants have the opportunity to receive personalized benchmark reports. For information on how to participate, please email tax@kpmg.com.

Tax departments today

KPMG International research has shown that the most effective, highly valued tax departments are those that manage tax risk and compliance while identifying opportunities for adding value through core tax management skills and proactive collaboration with all parts of the business in advancing the overall objectives.

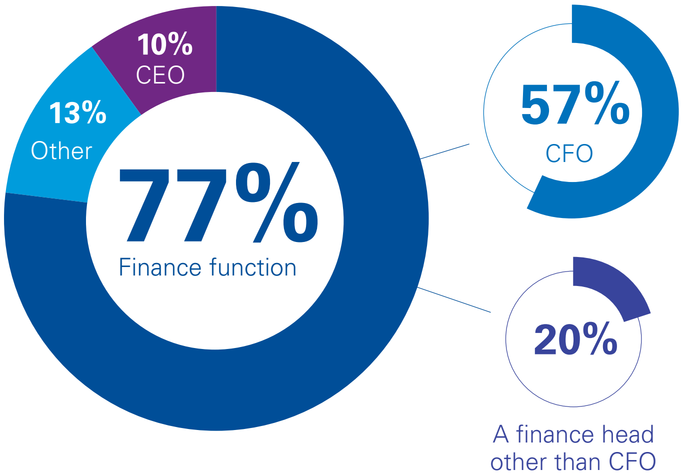
For many organizations, having a tax department structure that centralizes management and resources can help to achieve these ends. Centralization can help ensure accountabilities are clear, the right mix of dedicated and shared resources are available, and processes and technologies are leveraged to improve consistency, quality and efficiency.

Survey results show that many companies are moving toward greater centralization of tax resources and activities, especially in the area of transfer pricing. However, companies may have opportunities to further centralize accountabilities and activities — for example, through greater use of shared service centers or other centralized sourcing models.

Reporting lines

Globally, the majority of tax functions still fall within the finance function, although almost 30 percent are independent. Over three-quarters of tax leaders report to the CFO or head of finance (other than CFO), while almost one in 10 report to the CEO directly.

Tax departments most often fall within finance:



Source: 2016 Tax Benchmarking Survey, KPMG International.

Staffing and sourcing

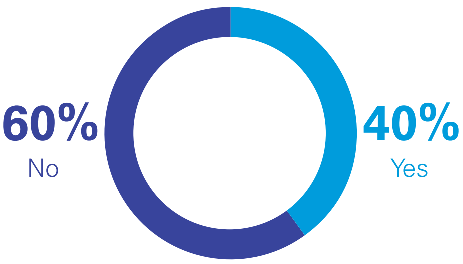
On average, tax functions of respondent organizations have 16 full-time employees (FTE) at their tax department headquarters location, and an average of 27 FTEs at other locations.

Almost four in five tax departments are responsible for domestic reporting, while three in five have responsibility for global reporting. For the majority of respondents, the tax department has primary responsibility for:

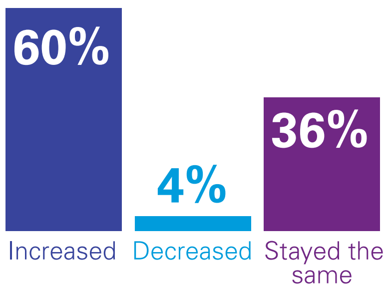
- tax returns/compliance
- business unit support and consulting
- transaction taxes
- accounting for income taxes
- transfer pricing.

A majority of tax departments do not use a shared service center (SSC) to handle any of their activities. Of those that do, most have increased their SSC utilization, while only a few have decreased it. The processes most commonly delegated to SSCs are accountancy/general ledger, sub-ledgers (creditors, debtors, capital assets), and fiscal declaration processes (e.g., for VAT purposes).

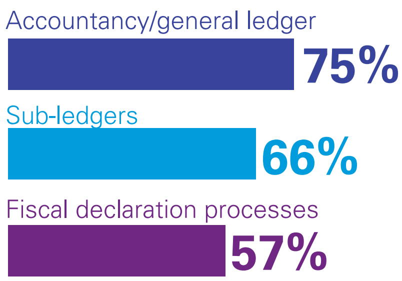
Just under half of tax departments utilize a shared service center for some of their routine functions:



For many, this represents an increase from 2 years ago:



Accountancy/general ledger activities are the most common functions delegated to the shared service center today:



Source: 2016 Tax Benchmarking Survey, KPMG International.

> **"There is no one-size-fits-all in terms of resourcing. Each organization is different. But what we are seeing more and more, is that tax departments are building out their own IT capabilities, whether by equipping tax professionals with technology skills or by teaching technology professionals tax knowledge. Departments may benefit from a combination of both these approaches."**
>
> **Scott Weisbecker, Global Head of Tax Transformation, KPMG International**

Structure of the transfer pricing function

Due to increased tax authority interest and activity in recent years, transfer pricing risk has been rising. This area is expected to put even more demands on tax teams in the coming years as countries implement the transfer pricing recommendations arising from the Organisation for Economic Co-operation and Development's (OECD) Action Plan on Base Erosion and Profit Shifting (BEPS). Centralizing transfer pricing activities may facilitate more effective, efficient and consistent compliance globally as country-by-country reporting, master file/local file documentation requirements, and automatic exchange of tax information among tax authorities come into force.

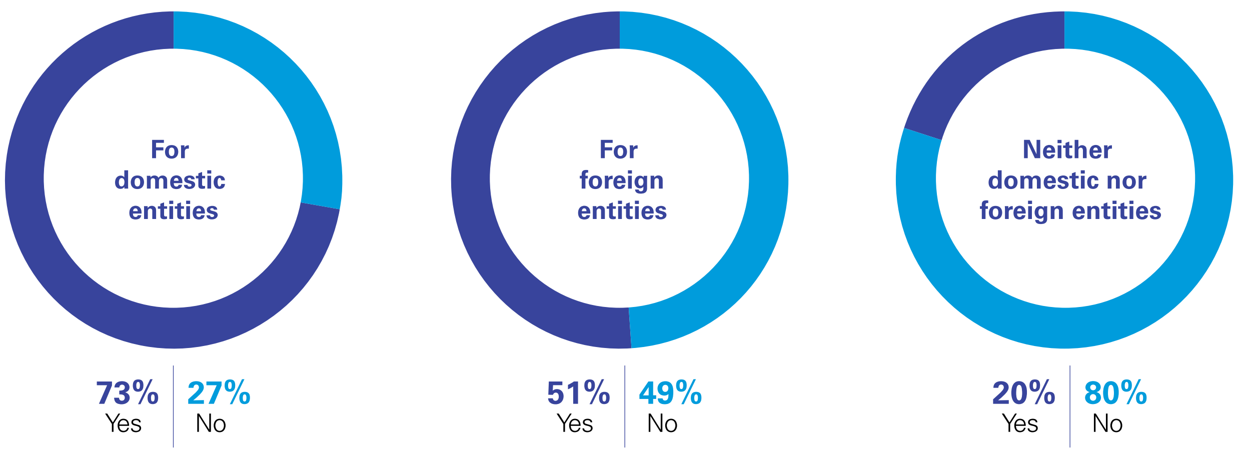
In this light, it is encouraging to see that the transfer pricing functions of most respondents surveyed are either entirely or generally centralized in the headquarters country. Only 12 percent of transfer pricing functions are local or regional.

Additionally, most central tax departments are responsible for transfer pricing documentation for associated domestic entities, and just over half of them are responsible for associated foreign entities. Further, as discussed later in this report, a significant number of companies plan to invest in country-by-country tax reporting software in the next 5 years.

Transfer pricing activities tend to be performed largely in the country of the tax department headquarters location:

Source: 2016 Tax Benchmarking Survey, KPMG International.

Is your central tax department responsible for the transfer pricing documentation for associated entities?



Source: 2016 Tax Benchmarking Survey, KPMG International.

"As Action 13 unfolds at a rapid pace around the world, it is transforming transfer pricing documentation requirements as we know them, and organizations are scrambling to adapt, not only to harness the right data and meet the new reporting requirements coming into play around the world but also to address the follow-on effects, including a likely increase in disputes. Technology is playing a big role in helping them respond."

Sean Foley,
Head of Global Transfer Pricing Services, KPMG International

Key takeaways:

- Globally, most tax functions still fall within the finance function, although a significant proportion are independent. About one in 10 heads of tax report to the CEO directly.
- Many companies are moving toward greater centralization of tax resources and activities, especially in the area of transfer pricing.
- Companies may have opportunities to further centralize accountabilities and activities — for example, through greater use of shared service centers or other centralized sourcing models.
- The transfer pricing functions of most respondents surveyed are either entirely or generally centralized in the headquarters country. This result is encouraging given the significant challenges ahead as countries implement transfer pricing-related proposals under the OECD's Action Plan on BEPS.

Governance, risk management and tax responsibility

The amounts of tax that global companies pay in total and in various jurisdictions have captured the spotlight in recent years. Tax leaders are being asked to explain their companies' tax affairs to senior management, boards and other stakeholders. Tax authorities are looking at the quality of companies' tax governance and strategies as they evaluate tax compliance risk. Investors, the media and the public are increasingly calling on companies to be more transparent and show they are socially responsible in their policies and approaches to taxation. At the same time, tax leaders are challenged to spot strategic opportunities and partner with the business so taxes are managed effectively and so the data collected for reporting and compliance obligations can, in turn, be used to offer valuable insights for the business.

Survey results show that many companies have recognized and responded to the need to demonstrate strong frameworks for tax governance, risk management and tax responsibility. These frameworks often mandate board-level involvement in tax governance. Most tax leaders say they are well involved in strategic decision-making. However, tax involvement is suggested, but not required, in decisions involving many high-profile risk areas, and some high-profile risk areas may be overlooked.

Tax approaches and risk management

Just over half of respondent companies have a documented tax strategy or overarching tax policy document covering tax risks. Of these companies, a slightly higher proportion review and update this strategy at least annually.

Respondents say the most important objectives within their tax strategy's scope are (on average; in ranked order):

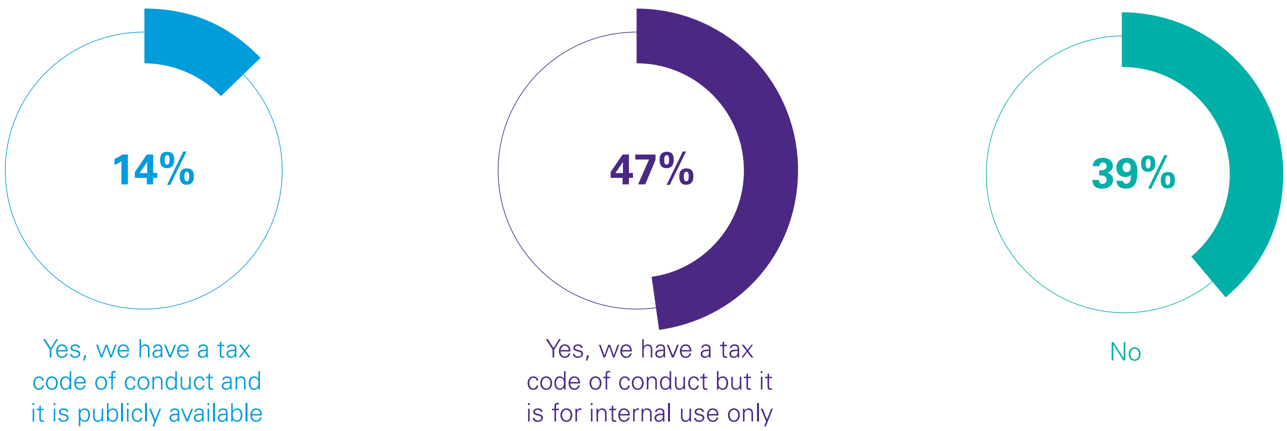
1. tax compliance
2. risk minimization
3. tax reputation.

The majority of respondent companies have a tax code of conduct to frame their risk tolerance and tax decisions. As part of their approaches to corporate social responsibility (CSR), about 30 percent disclose some tax information, and 15 percent do so publicly. Nearly a third of respondents intend to increase public disclosures about their tax information in the future.

"With the global trend toward increased transparency, there is a need for tax professionals to be exceptional communicators and brand ambassadors. Many tax leaders are conscious that they need to be able to articulate internally and externally the ways in which their departments embody the values of the organization and contribute positively to society, while also adding value to the business."

Jane McCormick,
Global Head of Tax, KPMG International

Most tax departments have a code of conduct to frame their risk tolerance and tax decisions ...



... with some disclosing this information publicly. Nearly a third actively plan to do so in the future.

Source: 2016 Tax Benchmarking Survey, KPMG International.

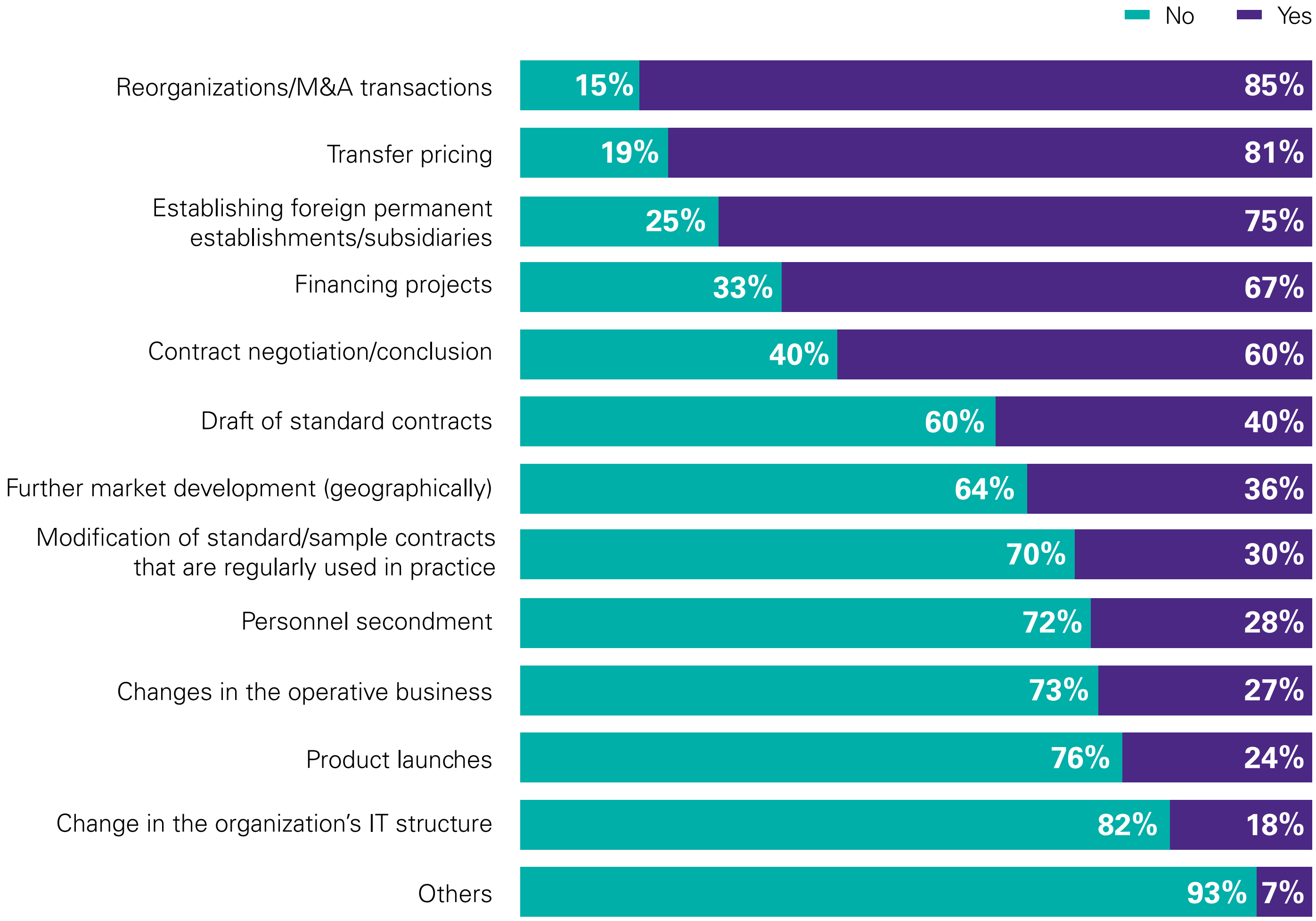
Board and business involvement in tax strategy

In about two-thirds of respondent companies, a board member (or board-level individual) has been assigned responsibility/accountability for tax.

Within tax strategy or overarching government policy documents, other parts of the business are instructed to involve the tax department most commonly in the high-profile risk areas of reorganizations/merger and acquisition (M&A) transactions, transfer pricing and setting up foreign permanent establishments. However, fewer tax strategy documents instruct other departments to seek tax department involvement in other areas that could bear equivalent tax risk, such as changes in information technology (IT) structures, product launches and personnel secondments.

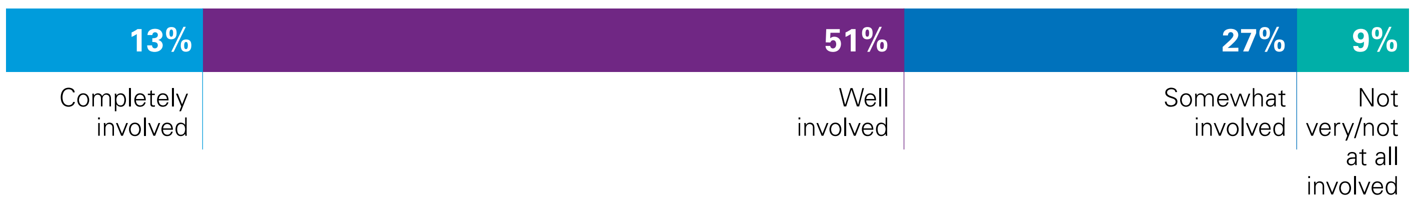
For any of these matters, involving the tax department is usually optional. Documented guidance requires (legally binding) involvement of the tax department in only 29 percent of respondent companies.

In which of the following areas is the tax strategy or overarching governance policy document instructing other functional areas to involve the tax department?



Source: 2016 Tax Benchmarking Survey, KPMG International.

How involved is the tax department in overall operational business planning/business strategy for the organization?



Source: 2016 Tax Benchmarking Survey, KPMG International.

A large majority of tax departments are contributing to operational business planning/business strategy, with 13 percent completely involved. In more than 60 percent of cases, this involvement has increased in the past 2 years.

Key takeaways:

— Many companies have recognized and responded to the need to demonstrate strong frameworks for tax governance and risk management.

— Over half of respondents have some form of documented tax strategy. Tax compliance, risk minimization, tax reputation and group tax rate are the most important objectives within the tax strategy's scope.

— Other parts of the business are often instructed — but not formally required — to involve the tax department in high-profile risk areas. The most common of these areas are reorganizations/M&A transactions, transfer pricing and setting up foreign permanent establishments.

— Nevertheless, half of tax departments are well involved in operational business planning/ business strategy, and this involvement has increased in the past 2 years in the majority of cases.

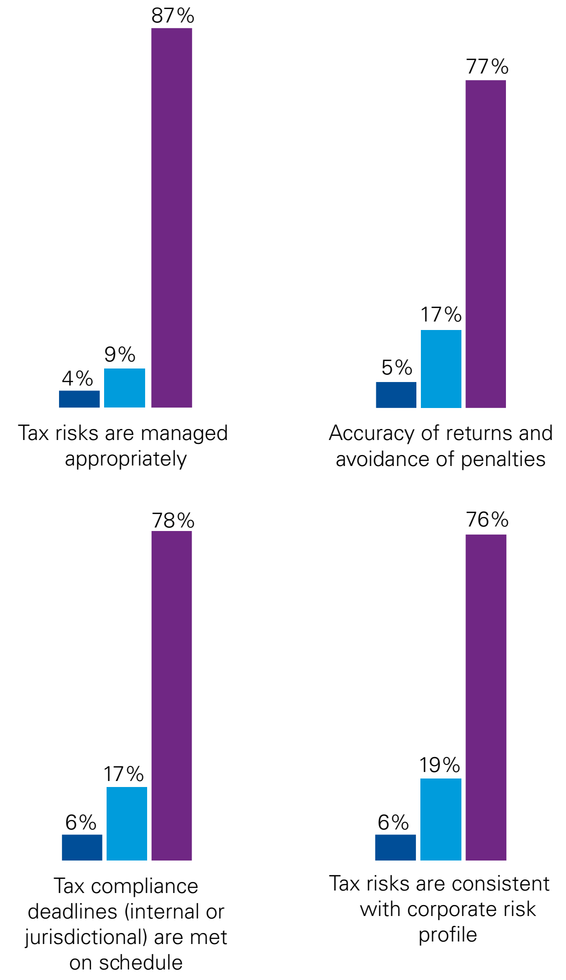
Measuring performance

Measurement drives performance and informs leadership of the tax department's effectiveness. Clear, commonly understood performance measures are important for demonstrating the tax department's worth and quantifying the value it brings. Metrics can also be used to support the case for investment in new technologies and process efficiencies to derive more value from tax processes.

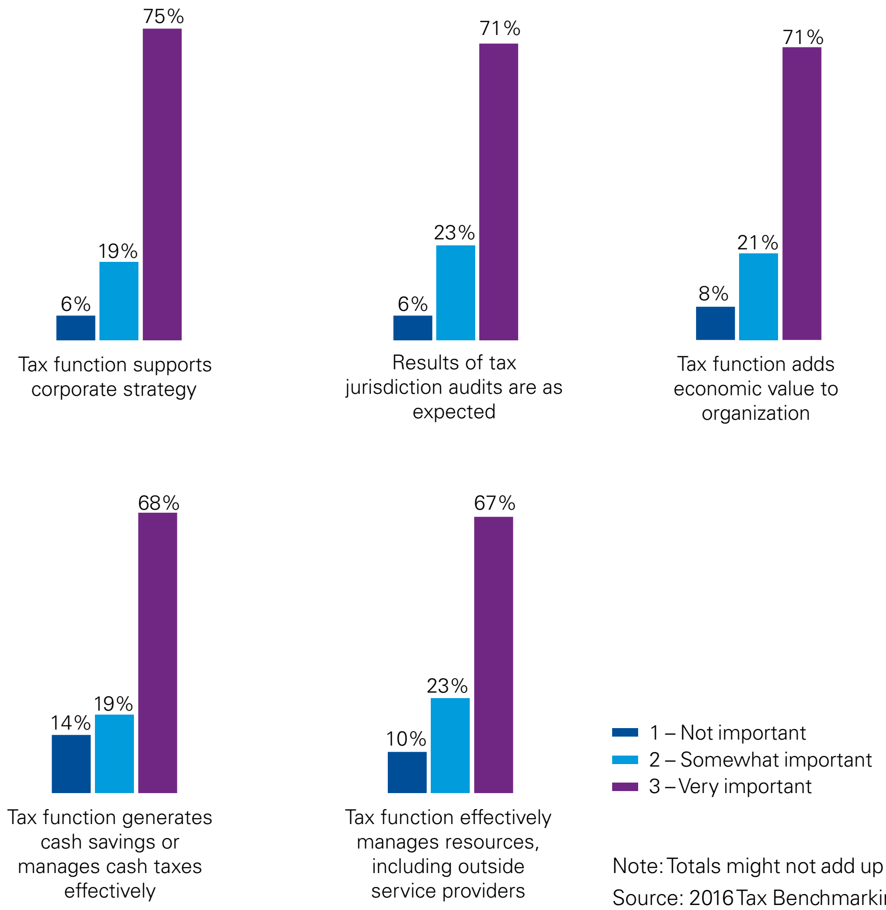
To measure the performance of their tax function, the five most important metrics used by management of respondent companies are:

1. appropriate tax risk management (57%)
2. accuracy of returns and avoidance of penalties (56%)
3. meeting internal or jurisdictional tax deadlines (51%)
4. tax risks consistent with corporate risk profile (46%)
5. effective tax rate at expected tax rate (41%).

Respondents ranked the following performance metrics criteria in terms of importance for management:



These responses appear to be in line with respondents' priorities within their tax strategy's scope. Traditional tax department metrics — cash tax savings and management and effective tax rate — were ranked highly by two-thirds of respondents but below the primarily risk- and compliance-oriented metrics that were ranked as the top four. The relatively high rankings for adding value, supporting corporate strategy and business unit satisfaction suggest attention is being paid to how tax functions are interacting with the business and contributing to strategic decision-making.



Note: Totals might not add up to 100% due to rounding.
Source: 2016 Tax Benchmarking Survey, KPMG International.

Key takeaways:

— Clear, commonly understood performance measures are important for demonstrating the tax department's worth and quantifying the value it brings.

— Results suggest risk management and compliance management are considered as the most important measures of tax department performance.

— Attention is also being paid to measuring how tax functions interact with the business and add strategic value.

Tax departments of the future

At the beginning of this report, we noted that an efficient and effective tax department is structured to ensure accountabilities are clear, that the right mix of dedicated and shared resources are available, and that processes and technologies are leveraged to improve consistency, quality and efficiency. Are today's companies prepared to make the investments in people, processes and technology needed to create tax departments designed to meet the challenges of the future?

Survey results suggest that the trend toward greater centralization and standardization will continue. Increasing the number of tax staff members is tax leaders' top priority for investment, and the number of tax department FTEs is expected to increase in half of respondent companies. With the notable exception of transfer pricing software, however, companies may be missing out on opportunities to drive increased efficiencies by increasing their use of tax-related software.

Priorities for improvement

A strong majority of respondents say the trend concerning organization of tax departments is moving toward greater centralization.

The most important process improvement areas to focus on over the next 5 years:

1. Consulting with business or operating unit
2. Process standardization
3. Formalizing risk management
4. Tightly connecting provision and compliance process
5. Paperless environment

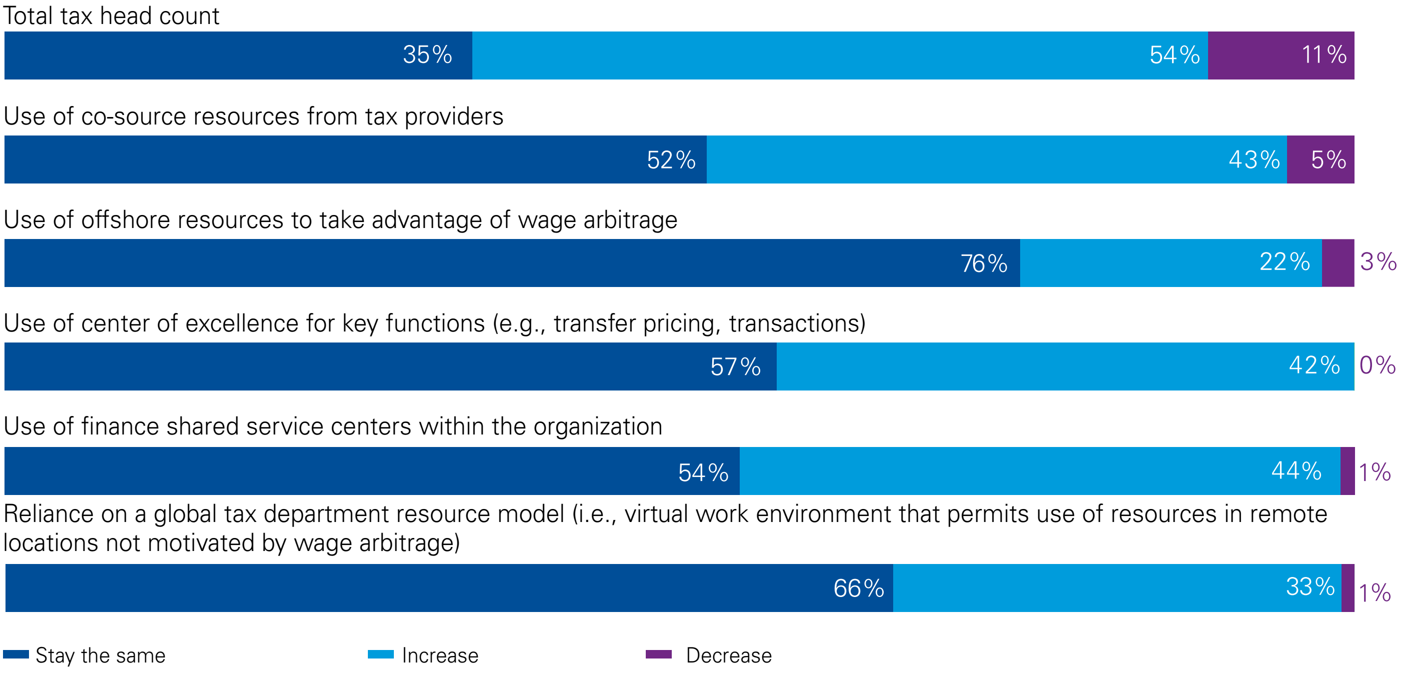
Staffing and sourcing

Just over a third of respondents expect tax head counts to remain the same over the next 5 years, while over half of respondents expect their number of FTEs to increase — with almost one in five projecting their head counts will grow by more than 20 percent.

Forty-two percent of respondents expect their use of co-source resources from tax providers to increase moderately over current usage. A higher percentage of respondents plan to increase their use of centers of excellence for key functions such as transfer pricing and transactions and/or finance shared service centers.

A minority of companies similarly expect to increase the use of virtual work environments to source their global tax departments remotely or their use of offshore resources to take advantage of wage arbitrage. Relatively few companies plan to decrease their use of any of these sourcing options.

How resource models are expected to change in the next 5 years:



Note: Totals might not add up to 100% due to rounding.
Source: 2016 Tax Benchmarking Survey, KPMG International.

Tax technology

Companies may be missing out on opportunities to drive increased efficiencies by increasing their use of tax-related software. Compliance software is currently the most commonly used tax software. Eleven percent of companies that now use it plan to change their current software, while 19 percent of other companies plan to acquire compliance software in the next 5 years.

Off-the-shelf provision systems and document management systems are the next most commonly used software, employed by about one-quarter of respondents. However, there appears to be little enthusiasm to change tools or increase usage among current users. The majority of companies do not currently use tax software for tax audit support, global trade or workflow.

The one type of tax software that is expected to see significantly more use is country-by-country reporting software. Only 11 percent of companies use it now, and only a handful of these companies plan to invest in changing it. However, 39 percent of companies plan to acquire country-by-country reporting software in the next 5 years.

In terms of satisfaction with their companies' enterprise resource planning (ERP) systems in providing necessary tax data, many companies are ambivalent. Only a third is satisfied with their current ERP systems.

In the next 5 years, technology changes to systems that supply tax data are expected to increase in the following areas (in ranked order):

1. overall leverage of enterprise finance IT systems for tax purposes
2. use of consolidation system data for tax purposes
3. understanding of tax data needs by IT resources
4. investment in tax-specific technologies
5. use of tax data warehouses and tax sensitization of G/L and other accounts (tied results)
6. tax sensitization of business forecasting systems.

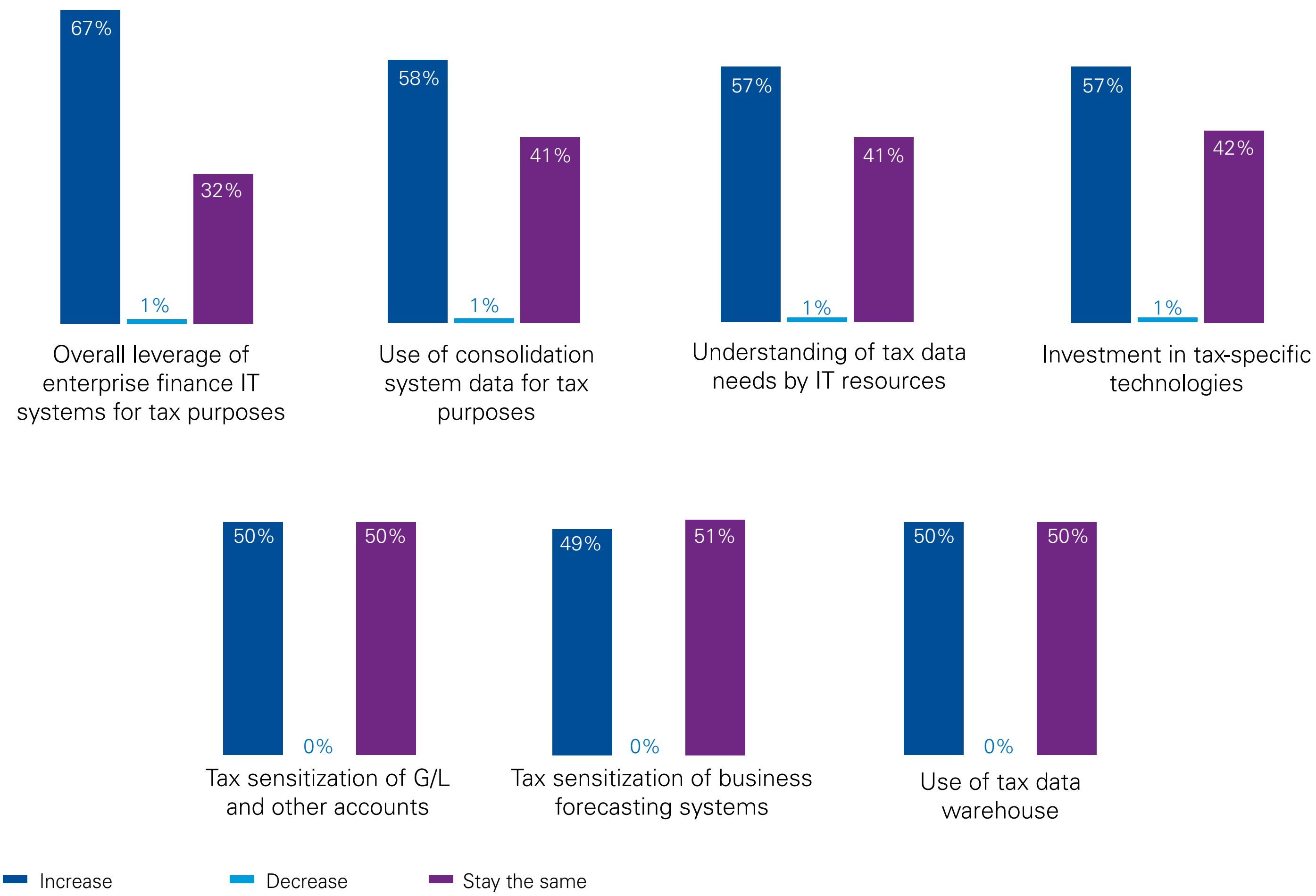
Tax departments are leveraging technology for their processes to differing degrees, with software for country-by-country reporting, transfer pricing and document management expected to be top investment areas in the next 5 years:

Note: Totals might not add up to 100% due to rounding.
Source: 2016 Tax Benchmarking Survey, KPMG International.

"Tax authorities face the same issues that organizations do in terms of attracting and retaining the right skill sets and finding the right technologies they need to achieve their goals, but they are making real strides by building capacity through technological advancements and sharing of best practices across jurisdictions. The tax policy decisions seen over the past few years — the transparency requirements of the Foreign Account Tax Compliance Act and country-by-country reporting, the information-sharing requirements like Automatic Exchange of Information, and tax reforms around the globe — are largely fueled by what can now be accomplished by technology. Tax leaders need to leverage these capabilities in their own departments not only to keep pace but also to realize value."

Tim Gillis,
Global Head of Tax Technology & Innovation, KPMG International

Over the next 5 years, most organizations expect to make a shift in the way they leverage the systems that supply tax information:

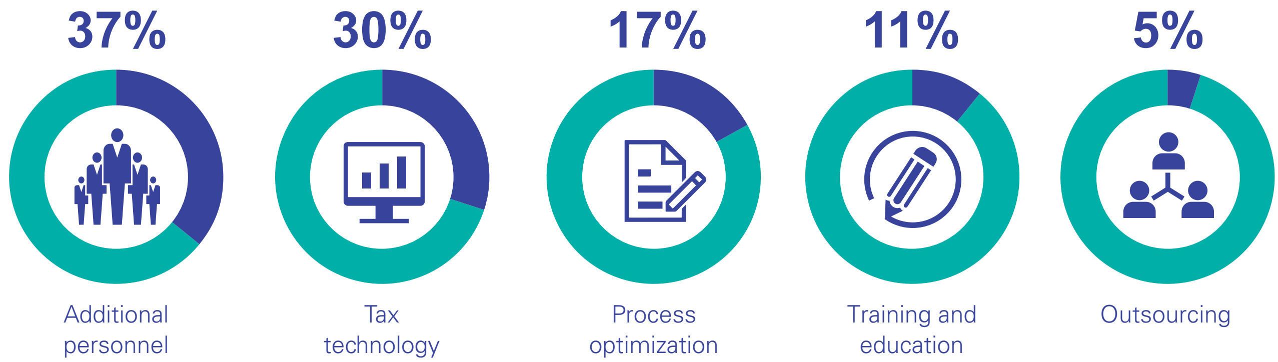


Note: Totals might not add up to 100% due to rounding.
Source: 2016 Tax Benchmarking Survey, KPMG International.

If tax leaders were to receive a generous budget increase to invest in one area, the top beneficiaries would be (in ranked order):

1. additional personnel
2. tax technology
3. process optimization.

If you received a generous budget increase to invest in one key area of your tax department, where would you invest?



Source: 2016 Tax Benchmarking Survey, KPMG International.

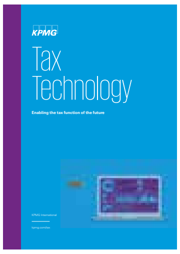
Key takeaways:

- The trend toward increasing centralization of tax departments will continue, and process standardization tops the list of tax leaders' priorities for process improvements.
- Over half of respondents expect their number of FTEs to increase — with almost one in five projecting their head counts will grow by more than 20 percent.
- Compliance software is currently the most commonly used tax software, and one in five respondent companies that do not use it now intend to acquire it in the next 5 years.
- A significant percentage of respondents plan to invest in country-by-country reporting software in the next 5 years.
- More than a quarter of tax leaders lack confidence in the ability of their companies' systems to provide tax data.
- Tax leaders' top three priorities for new investment are additional personnel, tax technology and process optimization.

Resources

For further information and resources, please explore the links below 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.

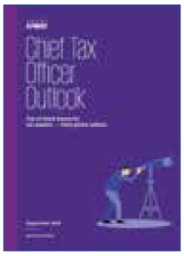
BEPS Action Plan: Taking the pulse publication series



Global Tax Technology

Global Tax App

KPMG TaxNewsFlash



Chief Tax Officer Outlook

Online rates tool

Contacts

Jane McCormick
Global Head of Tax
KPMG International
E: jane.mccormick@kpmg.co.uk

Sean Foley
Head of Global Transfer Pricing Services
KPMG International
E: sffoley@kpmg.com

Khoonming Ho
Asia Pacific Head of Tax and
Head of Tax for KPMG in China
KPMG China
E: khoonming.ho@kpmg.com

Sharon Katz-Pearlman
Global Head of Disputes
KPMG International
E: skatzpearlman@kpmg.com

Rodney Lawrence
Global Head of International Tax
KPMG International
E: rlawrence@kpmg.com

Chris Morgan
Head of Global Tax Policy
KPMG International
E: christopher.morgan@kpmg.co.uk

Christopher Scott
EMA Region Head of Tax
KPMG International
E: christopher.scott@kpmg.co.uk

Brahma Sharma
Global Head of Markets Tax
KPMG International
E: brahmasharma@kpmg.com.sg

Scott Weisbecker
Global Head of Tax Transformation
KPMG International
E: sfweisbecker@kpmg.com

kpmg.com

kpmg.com/socialmedia

kpmg.com/app

Download on the App Store

Designed by Evalueserve.

Publication name: A look inside tax departments worldwide and how they are evolving

Publication number: 134080-G

Publication date: November 2016