



Tax: driving a pathway to the future

2017 KPMG Asia Pacific Tax Summit

Key reflections

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Tax: driving a pathway to the future

In the midst of geopolitical unrest, technological disruption and economic uncertainty, those managing the taxation of major businesses find themselves needing to think deeply about the additional complexities faced by the modern tax department in its quest to deliver value inside and outside the organization.

A diverse group of tax leaders gathered in Hong Kong for the 2017 KPMG Asia Pacific Tax Summit to explore the present context and consider the path to the future. The Summit was a chance to network, share ideas and gain meaningful insights for tackling the issues of today and preparing for those that will need to be addressed in the years ahead, as the tax function continues to evolve and reinvent itself.

Some of the many notable speakers who took to the stage in Hong Kong included: Edward Troup, Executive Chair – Her Majesty's Revenue & Customs; Michael Andrew, Chairman of the Board of Taxation – Australia; David Gordon, Senior Adviser – Eurasia Group; Maryanne Mrakovcic, Deputy Secretary – Australian Treasury; Jefferson VanderWolk, Division Head – OECD.

This document offers some reflections on the key discussion points that arose during the Summit Plenary sessions. Thank you to all who attended!



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10 key points on geopolitical setting

1

Like Robert Kennedy's era, the current times contain high uncertainty and danger, but also the potential for unleashing great productivity.

2

There are very significant global political shifts that are irreversible and will give rise to very far-reaching and deep-seated changes.

3

The US is developing a new relationship with its allies, which the US believes ought to play a greater role in paying for global security.

4

There is a strong commitment to increased military power, but also a greater skepticism of military engagement, at least with ground forces.

5

There is a strong current US focus on North Korea, potentially to the detriment of a broader US engagement with Asia.

6

China is taking an increasing role in global leadership including the One Belt One Road Initiative, but the limits of that role are currently uncertain.

7

The implications of Brexit are very difficult to postulate and may be very far reaching. It is too early to tell.

8

There is a sense that US businesses are becoming increasingly frustrated with regulation and control in the Chinese economy.

9

Ultimately, there is a sense that future US and Chinese cooperation is critical to the success of both economies.

10

The future rise of India will see that country play a strong role in the Indian ocean, whereas China's focus will be on the Pacific.



10 key macro-trends in taxation

1

Tax landscape was transformed by the GFC after which governments became significantly more proactive in tax collection in the face of austerity.

2

Future landscape strongly influenced by community attitudes, reputational risk, transparency and whistle-blowers.

3

There is a changing attitude to black letter law where businesses do not come to courts with clean hands.

4

The future will see businesses needing to focus on the ethical tax position of others in the supply chain.

5

A good tax record will become important in winning procurement contracts from the government.

6

There will be a move to a cashless economy with real-time settlement of transactions and a digital trail.

7

US Tax Reform could be a game-changer for the international corporate tax environment.

8

Effectively dealing with the rise of multinational criminal organizations with high levels of sophistication will become increasingly critical

9

Governments will use data better in the future to uncover tax fraud including internet scraping and better sharing of data.

10

Public companies are playing a decreasingly important role in the economy given the rise of private equity, sovereign wealth funds and others.



10 observations on the future of capital taxation

1

Inequality is becoming an increasing area of focus globally. It is highly complex and not amenable to simple analysis.

2

The OECD is now looking at capital taxation not with a view to raise the overall level of tax but reduce distortions and improve efficiency.

3

In the developed world, additional inequality in recent years has mostly been due to increased disparity in labor income rather than capital income.

4

Emerging economies initially see greater labor income disparity and then greater wealth disparity in the strong growth phase.

5

New technology-based business models may have a strong impact on the concentration of wealth. The extent of this is uncertain.

6

Most commentators saw company taxation stabilizing in the future in a band between 17 percent and 25 percent for most countries. US reform may help drive this.

7

In the current environment, there is a superabundance of capital without an investment home.

8

Companies have generally not lowered hurdle rates for investment projects notwithstanding the substantially lower cost of capital compared with the 1980s and 90s.

9

Future expansion of revenue bases may include user charges, environmental taxation and consumption taxation. Financial transactions taxes are also possible.

10

Taxation of robotics seems to be unlikely.



10 insights into technology megatrends and solutions

1

Technology is the key input on whether a tax function is defensive, keeping pace or building a proud tax narrative.

2

There is a change in tax policy away from complex corporate taxation to easier to collect taxes. Corporate tax rates have previously reached their high-water mark.

3

Data explosion and digital transformation is the key future megatrend that will impact virtually all aspects of the practice of taxation.

4

New productivity metrics will substitute existing metrics on what the future 'good' looks like.

5

The future will bring about a convergence of specializations for taxation in addition to many other areas.

6

KPMG is developing multiple technology solutions. Four of these were discussed in TED-style talks. This was followed by hands-on demonstrations for participants.

7

Tax Intelligence Solutions for Indirect Tax provides quantitative insights and visibility over customer, vendor and product master data and the accuracy of indirect tax processes and filings.

8

Tax Intelligence Solutions for Transfer Pricing assists with preparation of TP documentation, provides valuable data and analytics insights into global supply chain and operational margin analytics.

9

Tax Control Room enables organizations to assess, benchmark and demonstrate tax performance, supporting management of risks and controls, and generating highly-visual reports.

10

R&D Edge is a cross-functional workflow management system for R&D processes. This was particularly timely as the government in Hong Kong recently announced a new R&D program.



10 themes on the future of revenue administration

- 1 Drive to digital services for the Revenue Authority 'customer' base.
- 2 Movement from random audit activity to risk-based activity.
- 3 Movement to real-time data collection (see, for example, Chinese and Russian VAT collections).
- 4 Movement from focus on upfront inputs rather than outputs.
- 5 Direct linkage of business accounting systems to tax administrations.
- 6 Strong future collaboration and sharing of information among revenue authorities.
- 7 New economy intermediaries (such as Airbnb) will play a critical collection and information role in the future.
- 8 Wide divergence of revenue administration culture on what is acceptable, avoidance or fraudulent.
- 9 Revenue administrations need to provide greater certainty to business and faster.
- 10 Revenue administrations of the future need to request information in a similar format.



10 key points on the future of the tax function

1

Changing technology and the potential for automation is the key challenge facing the future tax function.

2

Professional skills required will be different going forward. Technological skills and data scientists will be sought after.

3

Dealing with reputational risk, transparency, building a narrative and dealing with a wider group of stakeholders will continue to grow in importance.

4

The geopolitical environment in which tax policy is being formulated is currently under transformation, which will have a profound impact on the future tax function.

5

Given the additional data held by the tax function, the potential for value add to the business is significantly greater than in the past.

6

Greater focus will be on optimizing the position of supply chains, not simply through a tax lens but through multiple business lenses.

7

Tax functions are going to need to deal with a multiplicity of questions from revenue authorities, particularly from emerging countries.

8

Cost control is a major issue and will both drive the need for greater automation and put limits on the speed with which that occurs.

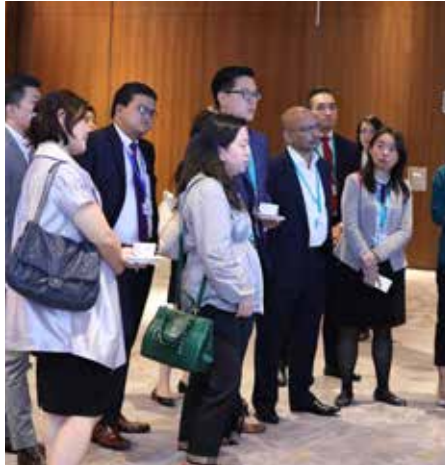
9

Tax functions will need to be mindful of potential cybercrime.

10

Advisors will be able to assist in 'what good looks like' in the end-to-end process for tax. Commonly, there is not the skill set within the tax function to do that.





Resources and further reading

Tax in the region



BEPS: Taking the pulse in the Asia Pacific region

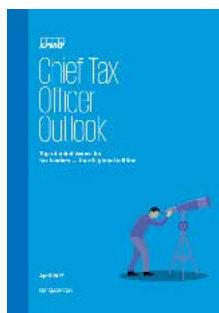


Asia Pacific Tax Centre



2017 Asia Pacific Indirect Tax Country Guide

Resources for tax leaders



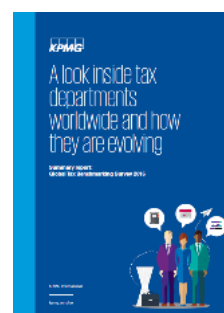
Chief Tax Officer Outlook (Global Edition)



Online Tax Rates Tool



Global Tax News Flash



Global Tax Department Benchmarking

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