

Indirect tax functions today

Highlights from the Global benchmarking report: indirect tax and trade compliance

March 2018



Priorities and performance

- Many organizations stand to see a significant working capital benefit from indirect taxes. However, many indirect tax leaders view the impact of indirect tax on their cash situation as negative, suggesting that their indirect taxes could be managed more effectively.
- Only a minority of organizations have established metrics to measure the effectiveness and results of the indirect tax function's performance. Given the huge amounts of working capital tied up in indirect tax processes, the relative absence of specific key performance indicators may be causing indirect tax teams to miss opportunities to improve cash flow, reduce costs and enhance the bottom line.



Accountability and visibility

- A rising proportion of global organizations have centralized accountability and governance by appointing a global head of indirect tax. A more recent trend has emerged toward the appointment of regional heads of indirect tax to enable specialized local coverage, improved partnering with the regional business units, and better relationships with local tax authorities.
- In most organizations, indirect tax now clearly comes under the purview of the broader tax function, rather than finance or other functions. This shift mirrors the higher profile given to tax in general in recent times among governments, tax authorities and the broader public. It also may reflect the worldwide emphasis on transaction-based taxes and the diminishing nature of corporate income taxes as statutory income tax rates have declined worldwide during the past 2 decades.¹



Risk and controls

- In the area of risk identification and controls, indirect tax functions increasingly say that they have identified key indirect tax risks across regions. However, a sizable minority have yet to identify their exposures to indirect tax risk in the Asia Pacific region or Latin America, which could adversely affect their cash positions.
- More global organizations are taking steps to verify the effectiveness of internal indirect tax controls embedded in their underlying business processes. Self-assessment is the more common approach, while a few companies are gaining the deeper insights that come with an independent external review.



Evolving compliance models

- The past several years saw a trend toward the centralization of indirect tax compliance activities for transactional taxes, driven in part by the latest round of finance transformation projects aiming to cut costs and boost efficiency.
- With this phase of finance transformation nearing completion, many organizations are taking a closer look at their centralized activities to assess which of them to keep in-house and which to outsource. A majority of organizations say they plan to re-orient their compliance models over the next 3 years to rely significantly more on outsourcing.



Investing in technology and resources

- Over the 3 next years, indirect tax leaders say they intend to make technology their top priority for investment. This shows indirect tax functions are recognizing that technology is becoming ever more critical as governments move toward digital data delivery and direct access to organizations' tax and financial accounts.
- In the near future, technology could offer one of the only viable solutions for verifying the accuracy and completeness of transaction-level data. Embracing tax technology, automation and data analytics can enable indirect tax leaders to bring a more evaluative understanding to their organization's risks and opportunities for adding value.

¹ <https://home.kpmg.com/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html>

For more information, please visit: www.kpmg.com/indirecttaxbenchmarking