



Global benchmarking report: indirect tax and trade compliance

March 2018

KPMG International

kpmg.com/indirecttax



Global tax policy reforms. Political shocks to international trade. Rising tax and customs authority demands for more information in more detail. Finance and tax function transformation. With forces like these driving change and heightening complexity, today's leaders of global indirect tax and trade compliance functions must ensure their functions can manage the huge volumes of transactions and cash flows needed for compliance while contributing strategic value.

How can indirect tax and trade compliance executives assess whether their functions are structured to meet current demands and the challenges of the future? Benchmarking is a powerful way to assess your current structure, identify leading practices among your peers, and find out how changes you can make now can prepare you for the challenges and opportunities your function will likely face tomorrow.

This global benchmarking report offers a snapshot of the structure, governance and performance measures of indirect tax and trade compliance departments today — and delivers insights on how these functions expect their compliance models to change in the next 3 years.

What does the current report tell us? Indirect tax and trade compliance functions are well down the road of centralizing many of their activities for greater efficiency and control, and they are enhancing these centralized models with stronger regional networks and more strategic use of outsourcing.

However, many of these functions have not set clear performance metrics or systematically identified their areas of key risk, and so they have yet to develop processes and systems for capturing, analyzing and deriving value from the resulting data.

Looking ahead, many indirect tax and trade compliance functions are prepared to invest in technology and process improvements. While a lack of data may hamper their ability to gain support for these investments, there is a strong business case to be made for functional transformations that enable greater efficiency in compliance, global visibility and control, and opportunities to produce strategic value.

Contents

Forces of change

2

Highlights

4

Focus on indirect tax functions

6

Focus on trade compliance functions

14

**Key actions for indirect tax
and trade compliance leaders**

22

We can help

23

Related publications

24

Contacts

25

About the report

Since 2011, regular iterations of KPMG International's Global Indirect Tax Benchmarking Survey have charted the evolution of indirect tax departments and identified operational benchmarks for high-performing tax teams. In 2015, the survey was broadened to capture similar information about trade compliance functions.

This year's report updates the key findings and comments in our most recent survey. Comments in this report are based on a sample survey of indirect tax and compliance leaders, supplemented with views from the leaders of the KPMG Global Indirect Tax Services team, who provide insights into leading practices and how these two vital functions can add real value to global organizations.

Throughout this report, the following regional acronyms are used: ASPAC — Asia Pacific, EMA — Europe, Middle East and Africa, and LATAM — Latin America.

Forces of change

An array of internal and external forces is shaping the current priorities and future plans of today's indirect tax and trade compliance functions. Some of the most important changes are happening in the following areas.

Continuing spread of indirect taxes

Except for the United States, the vast majority of countries have or plan to establish indirect tax systems and current indirect tax bases have continued to broaden. Now that India, China and the Gulf states have or will soon implement their value-added taxes/goods and services taxes (VAT/GST), centrally administered indirect tax systems are in place in over 160 countries.¹

With increases in indirect tax rates and widening of indirect tax bases, complexity is also on the rise. Businesses need to process ever more data to ensure they collect and pay the right amounts of indirect tax on all their purchases and sales wherever they operate.

Dynamic global trade environment

The environment for global trade is changing rapidly, with many countries seeking to negotiate or renegotiate bilateral and multilateral trade agreements, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership signed by 11 countries in January 2018.² Countering this trend is a move by some countries to take a more nationalist approach to trade, as shown by Brexit and the United States' stance in current talks to reform the North American Free Trade Agreement.

Finance function transformation

Many of the world's global companies are continuing to centralize indirect tax and other finance activities based on outsourcing, co-sourcing or shared service center models. Centralization permits greater automation and standardization, which can reduce costs and improve processes. But as the ability to tap the local knowledge and tax authority relationships has become more remote, indirect tax and trade compliance leaders are now investing in regional leadership models to establish confidence that their compliance obligations are well managed in all locations.

Tax authorities' focus on collections

As part of the global shift toward indirect taxes, tax authorities are putting more priority on ensuring indirect tax collections are thorough and complete, and they are investing heavily in electronic processes for collecting, analyzing and benchmarking taxpayers' indirect tax accounts and transactional data. Tax authorities are looking not only for accurate, timely filings but also for indications that organizations have effective management and governance in place.

¹ <http://www.oecd.org/tax/consumption-tax-trends-19990979.htm>

² <https://www.canada.ca/en/global-affairs/news/2018/03/statement-by-minister-champagne-on-signing-of-comprehensive-and-progressive-agreement-for-trans-pacific-partnership.html>

Authorities' focus on digitalization and controls

As tax authorities adopt increasingly sophisticated data-driven techniques to assess risk and target audits, companies are expected to provide digital tax filings and documentation in a rising number of tax jurisdictions.

Around the world, the past 5 years have seen the introduction or rapid expansion of electronic invoicing and the online filing of VAT and GST returns. Brazil has led the way with perhaps the most advanced e-invoicing system in the world, requiring a digital stamp from the tax authority and real-time reporting of transactions.

Other developments include:

- the introduction of 'split payment' mechanisms in several European countries, whereby the VAT on a transaction is remitted directly by the recipient to a separate bank account held for the benefit of the tax authorities
- Italy is now taking steps to implement a regulated invoice clearing system such as those in use in Brazil, China, India and Taiwan
- the pre-populating of information in VAT and GST returns (e.g. in India, with sales declared by suppliers being automatically populated in their customer's purchase returns)
- the development of real-time tax reporting not only in Brazil, but also in Spain with its SII system, in Hungary, and in Poland, Norway, Lithuania and France with standard audit files for tax (SAFT) reporting
- a shift in thinking by governments (e.g. Singapore) toward rewarding taxpayers who engage in preventative risk controls.

Do today's indirect tax and trade compliance functions have the people, processes and technology they need to meet these demands? As the rest of this report explains, these functions show signs of maturing, but most of them will need to invest in improving their performance measurement, risk management, technology and processes to withstand the challenges ahead. Planning for these investments offers these functions an opportunity to go farther, transforming from cost centers focused on compliance to strategic business partners that generate value.



Highlights

Indirect tax functions today



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.³



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.

³ <https://home.kpmg.com/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html>

Highlights

Trade compliance functions today



Priorities and performance

- With trade compliance functions still evolving, only a minority of them have set metrics to monitor their performance. As a result, global trade functions may have difficulty making the case for future investments in technology, automation and processes.
- For those functions that have established metrics, duty minimization and cost reduction are cited as a priority most often. A more balanced range of metrics that also covers compliance and qualitative measures seems needed to help trade compliance functions articulate the strategic value they contribute.



Accountability and visibility

- Organizations are continuing to move to a more global approach to trade compliance, as shown by the rising number of organizations that have a global head of trade compliance.
- A clear view of local costs and activities is a key to realizing the benefits of central leadership, but it appears that many organizations have not yet developed the systems and processes needed to enable effective global oversight over their trade compliance data.



Risk and controls

- Organizations that have identified risks also tend to have embedded processes and controls in underlying business processes to manage them. However, just as global trade compliance functions lack visibility over local activities, many of them lack knowledge of risks in the various regions.
- To verify the effectiveness of these processes and controls, the trend toward internal peer-to-peer self-assessment is increasing. Recent years have also seen a rise in the number of organizations engaging in internal or external audits to gain assurance that their controls are well designed and effectively deployed.



Evolving compliance models

- Despite the increase in global heads of trade compliance, compliance models among these functions are still predominantly driven locally, although survey respondents expect a shift toward more centralized models, including shared service centers.
- Looking ahead, there is an expectation that companies will move toward a more outsourced model in the next 3 years. Doing so will allow them to exploit the technology investments and economies of scale of third-party service providers and focus more on strategic pursuits and adding value.



Investing in technology and resources

- Only a small majority of larger organizations with over 20 billion US dollars (USD) of annual turnover say they use global trade management software and technology to manage aspects of their import/export activities. However, technology tops the list of priorities for investment in the next 3 years, followed by investments in processes and data and analytics.
- Most companies say that they have not been able to invest in technology because they lack the budget or organizational support to do so. Trade compliance leaders can benefit by positioning any proposed systems implementation holistically with cost reduction in mind as a way to transform the trade compliance function and drive value.

Focus on indirect tax functions



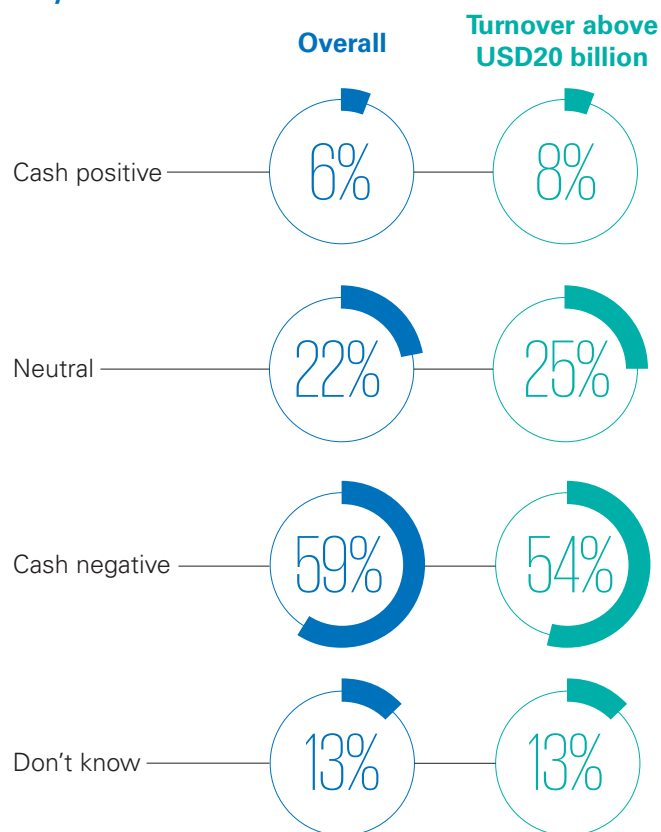
Priorities and performance

Over the past several years, indirect tax leaders have become increasingly aware of the impact of indirect taxes on their companies' working capital. However, there is a rising perception that the impact of indirect tax on their cash situation is *negative*.

While this is true for organizations that are unable to claim recoveries (e.g. financial services companies), most organizations stand to see a potentially significant working capital benefit from indirect taxes. In addition to the net indirect taxes paid to and recovered from governments, indirect taxes flow through the organization from customers and to suppliers, and businesses have to account for and pay for the tax before they receive it. While these flows are complex, the general impact of indirect tax on working capital should be neutral — *not negative* — as long as the right amounts are ultimately collected and remitted.

Moreover, the impact can be tipped to positive by effectively managing the timing of credits and payments — claiming recoveries as soon as possible, paying the right amounts when due and avoiding errors in transactions — and by taking advantage of some relatively simple opportunities that can improve the organization's cash position.

What do you believe is the cash impact of indirect tax on your business?



Note: Charts may not total to 100 percent due to rounding.
Source: KPMG International, 2017

Measuring performance

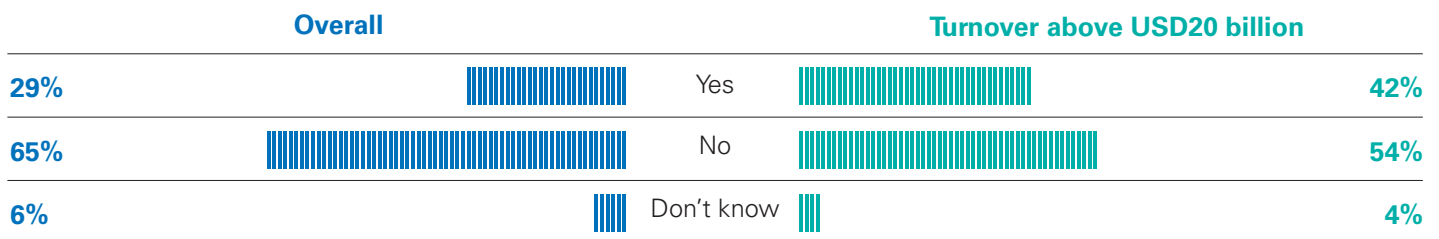
Perceptions that indirect tax has a negative working capital impact might suggest that organizations could be managing indirect taxes more effectively. Alternatively, these perceptions could indicate that indirect tax leaders do not have enough information about their organization's indirect tax inflows and outflows to determine exactly how net working capital is being affected.

This knowledge can be gained by setting metrics to measure the effectiveness and results of the indirect tax function's performance. However, less than half of global organizations with over USD20 billion in annual revenues have established such metrics, while less than a third of smaller organizations have done so.

For those larger organizations with over USD20 billion in annual revenues that do have metrics for indirect tax, managing indirect tax cash flow is the measure most commonly chosen, showing that these organizations see the benefits of highlighting the magnitude and impact of indirect tax's working capital impacts.

The second and third most common metrics for larger organizations — minimization of interest and penalties and timely and accurate submission of indirect tax returns — relate to compliance activities, which are important but which indirect tax teams should be fulfilling as a matter of routine.

Are there specific metrics established by the organization to measure the effectiveness of your indirect tax department's performance?



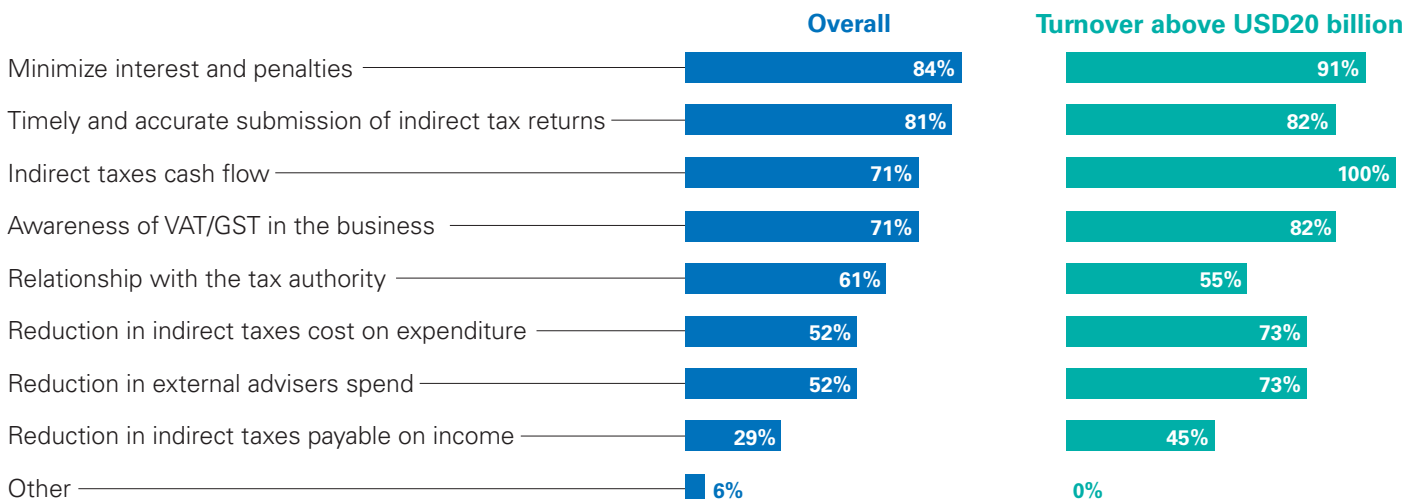
Source: KPMG International, 2017

Nevertheless, these metrics highlight the contribution to compliance of other key areas within companies, such as IT and internal control, and help determine that ownership of compliance processes is shared and aligned in ways that promote indirect tax compliance overall.

Business partnering is the fourth most common metric, which is also important given the proportion of indirect tax processes that occur outside the function and the benefits of monitoring and improving how the indirect tax team interacts with the broader business.

Less common are metrics that could help the organization understand what is driving the movement of working capital and take steps to improve it. Given the huge amounts of working capital tied up in indirect tax processes, the absence of specific key performance indicators on working capital impacts for some companies — or, in many cases, the relative absence of indirect tax metrics at all — may be causing indirect tax teams to miss opportunities to improve cash flow, reduce costs and enhance the bottom line.

If metrics are established, choose any/all that apply.



Note: Charts may not total to 100 percent as multiple responses allowed.

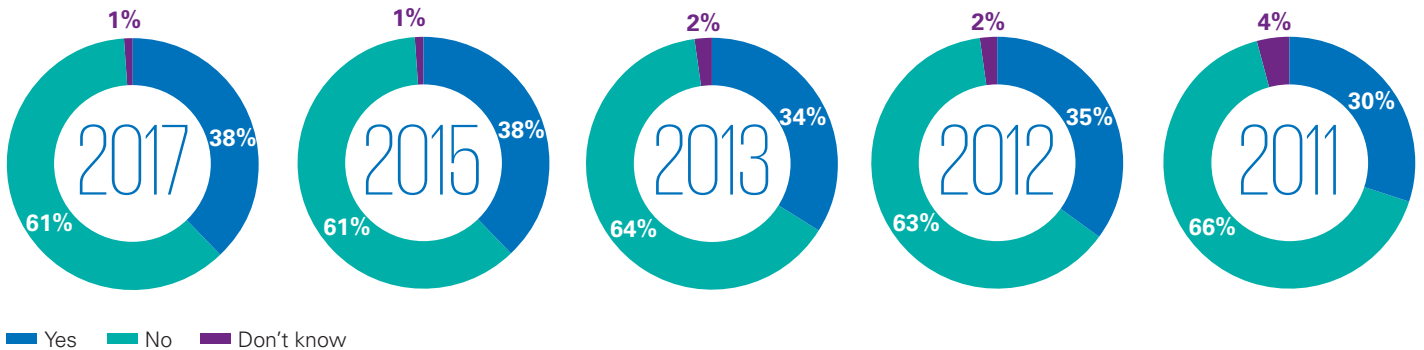
Source: KPMG International, 2017

Accountability and visibility

Continuing a trend observed since this survey's first iteration in 2011, 2017 saw a rise in the proportion of global organizations that have appointed a global head of indirect tax. This trend suggests that more organizations are recognizing the need to appoint a leader dedicated to managing the risks and cash flows associated with indirect tax. Centralizing indirect tax leadership can help determine that 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 globally.

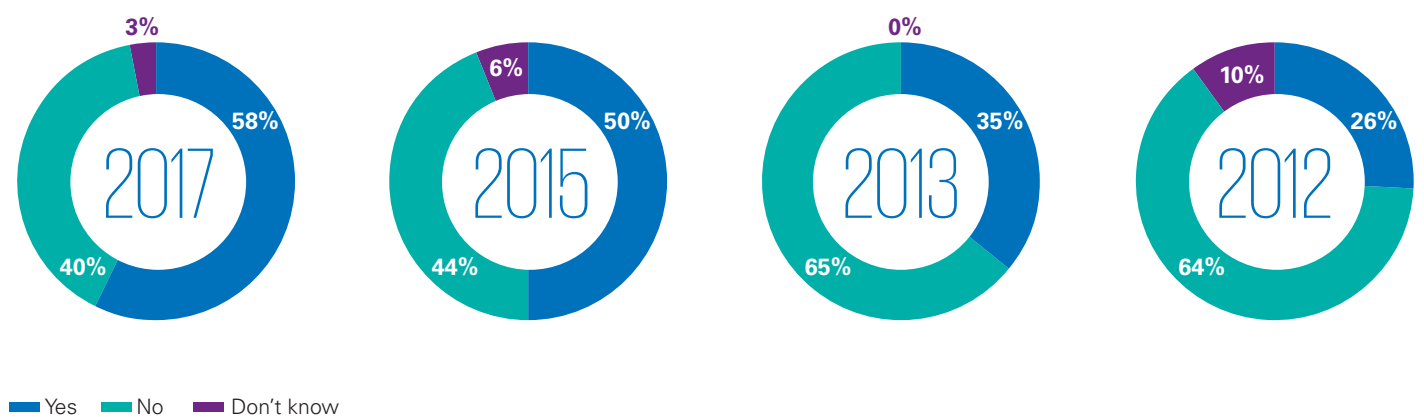
The past several years also saw increases in the number of global heads of indirect tax who report having visibility over indirect tax returns prepared locally. This increase has been enabled partly by the centralized accountability and also by the use of tax technology and workflow tools for monitoring local compliance. For some organizations, the establishment of metrics for timely and accurate indirect tax compliance may have spurred efforts to improve global visibility.

Do you have a global head of indirect tax (or equivalent title)?



Note: Charts may not total to 100 percent due to rounding.
Source: KPMG International, 2017

Does the global head of indirect tax have visibility over indirect tax returns prepared locally?



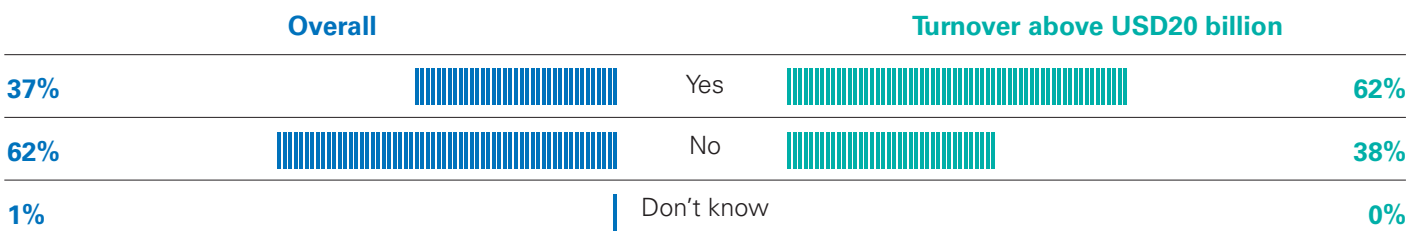
Note: Charts may not total to 100 percent due to rounding.
Source: KPMG International, 2017

Central accountability, regional support

As this global approach to indirect tax has highlighted the need to balance central oversight with local indirect tax knowledge and experience, a more recent trend has emerged toward the appointment of regional heads of indirect tax. Regional leadership enables specialized local coverage, improved partnering with the regional business units, and better relationships with local tax authorities. At the same time, regional heads of tax can be valuable nodes in a network for sharing information, identifying issues and replicating solutions across the organization.

Regional heads of tax are most prevalent in Europe, reflecting the relative maturity and stability of the region's indirect tax regime, followed by North America. Recent years have seen more regional heads of tax being appointed in the Asia Pacific and Latin America, following on the establishment and expansion of more complex regional business structures in these regions and on the increasing complexity and maturity of their indirect tax systems.

Do you have regional heads of indirect tax (or equivalent title)?

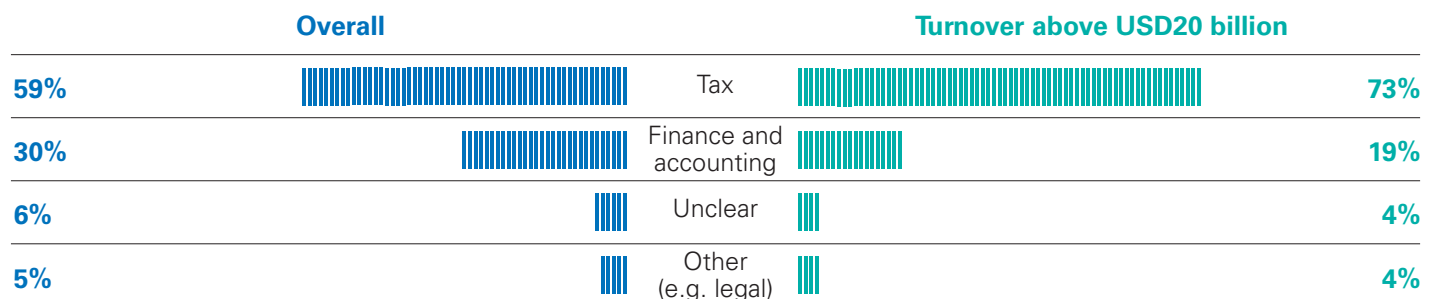


Note: Charts may not total to 100 percent due to rounding.
Source: KPMG International, 2017

Finally, 2017 also confirmed a longstanding trend regarding who has ultimate accountability for indirect tax within the company. Indirect tax reports directly to the finance function in a dwindling proportion of organizations. In most organizations today, indirect tax now clearly comes under the purview of the broader tax function. This shift mirrors

the higher profile given to tax in general in recent times, as governments, tax authorities and the broader public have taken more interest in the amounts of tax that companies pay and how their tax matters are governed. The shift may also reflect the two-decade impact of falling corporate income tax rates globally, as tax functions broaden their focus to all tax types.

Who has ultimate accountability for indirect tax in your business?



Note: Charts may not total to 100 percent due to rounding.
Source: KPMG International, 2017

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. These risks include risks embedded in processes that involve cash inflows and outflows, such as 'order to cash', 'purchase to pay', and 'record to report'.

A high majority of organizations that have identified regional tax risks also say they have instituted processes and controls for managing them. As European Union countries are among the more evolved jurisdictions when it comes to indirect tax enforcement, it is no surprise that organizations are more advanced in identifying risk in the region and establishing controls to mitigate them. A slightly lower proportion of organizations have similarly engaged in identifying risk in North America.

Moderate increases in risk identification in the Asia Pacific region and Latin America correlate with the rising regional focus, as indicated by the increasing prevalence of regional heads of indirect tax noted earlier. However, a sizable minority of organizations have yet to take steps to identify their exposures to indirect tax risk in the two regions, which could adversely affect their cash positions.

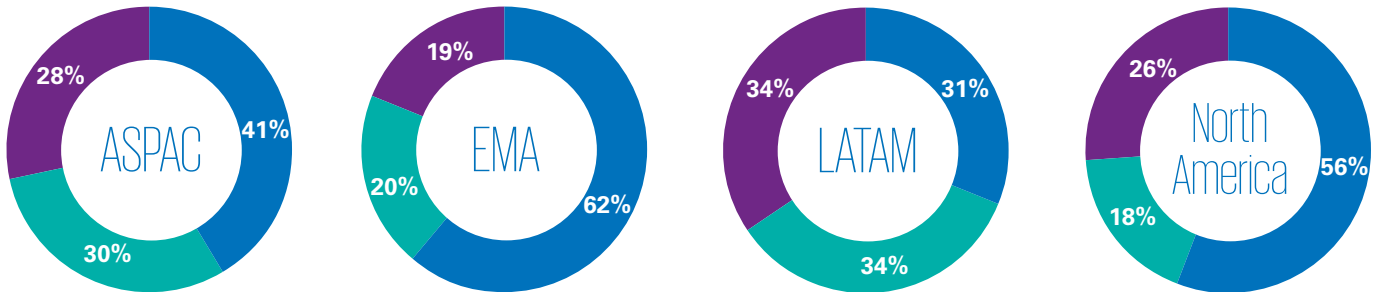
Of course, identifying risk and establishing controls are not enough. Organizations also need to make sure the controls are effective in achieving their intended goals. Global organizations of all sizes have been making significant strides forward in their verification of internal indirect tax controls embedded in their underlying business processes:

- Most large organizations with annual revenues over USD20 billion and a high majority of other companies conduct self-assessment of their internal controls.
- A high majority of large organizations subject their indirect tax controls to internal audit.
- About one-third of companies of all sizes engage external auditors to assess their internal controls.

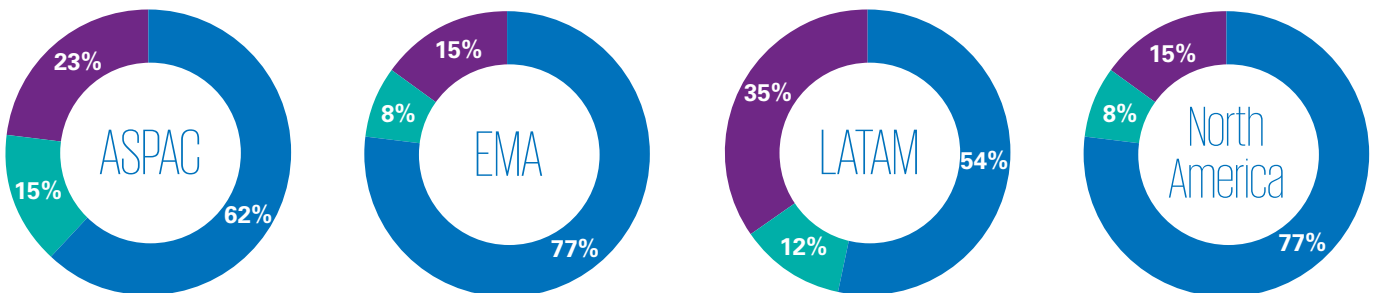
While the trend toward self-assessment is encouraging, organizations stand to gain more strategic insight and value from more active testing and independent external review.

Have you identified the key indirect tax risks in the following regions?

Overall



Turnover above USD20 billion

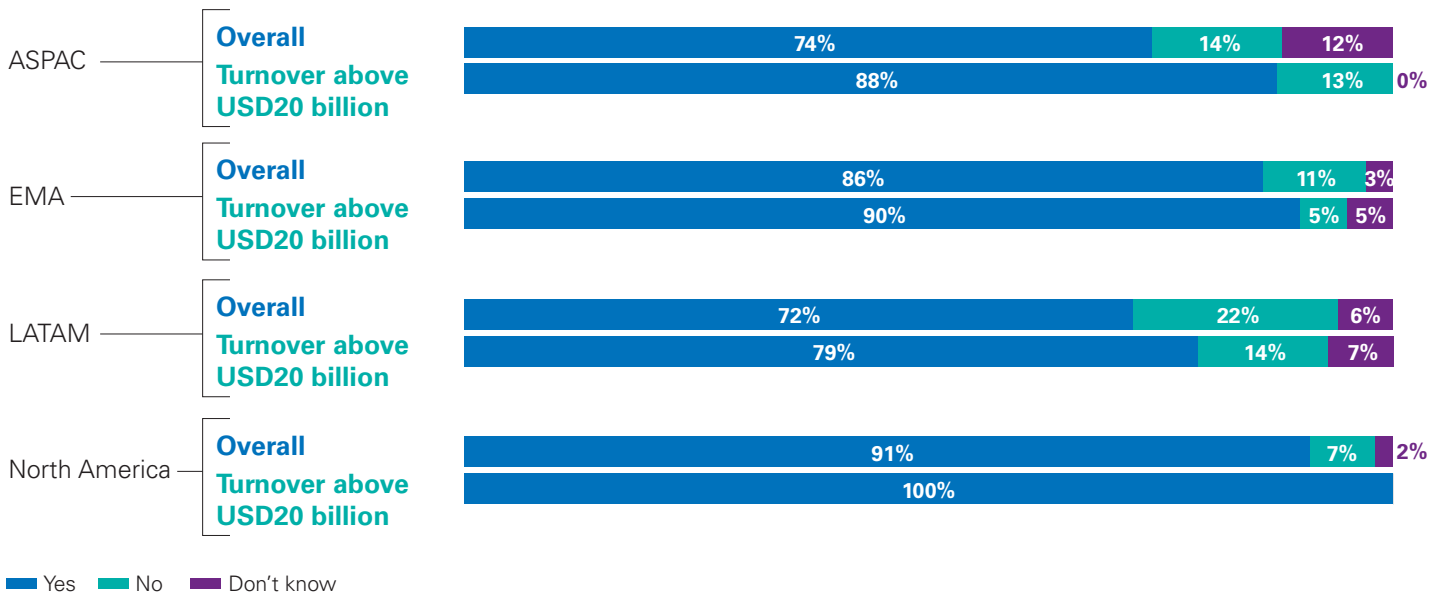


■ Yes ■ No ■ Don't know

Note: Charts may not total to 100 percent due to rounding.

Source: KPMG International, 2017

Do you have processes and controls in place to manage those risks?



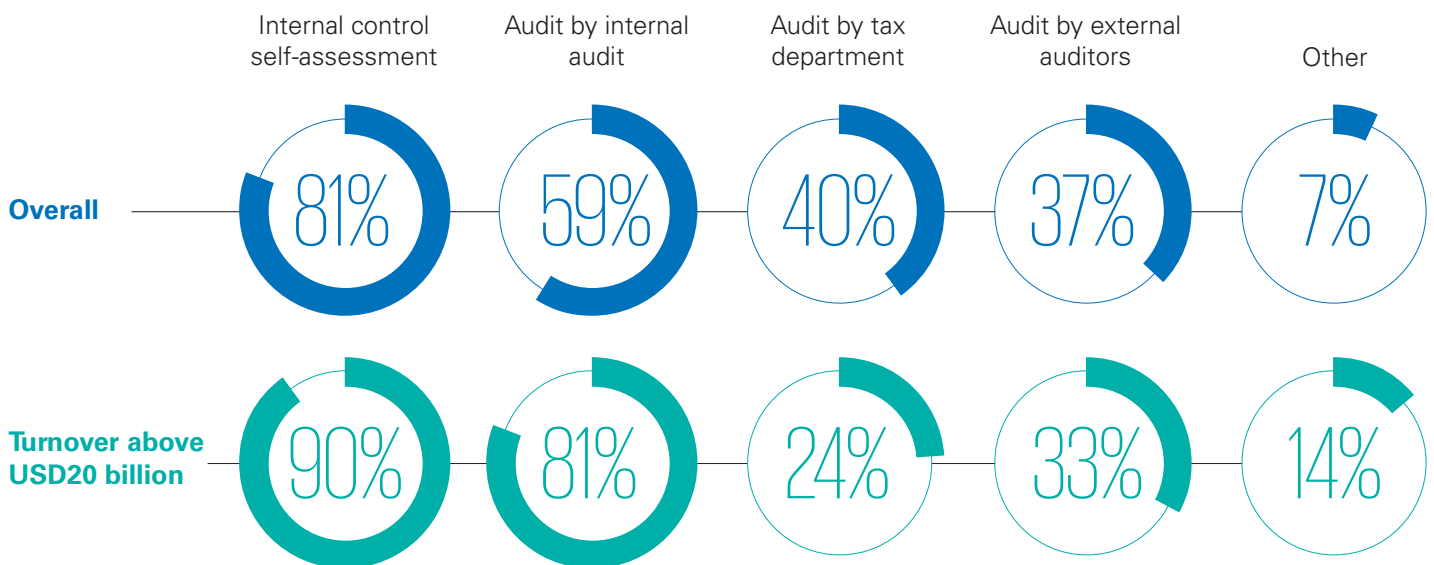
Note: Charts may not total to 100 percent due to rounding.
Source: KPMG International, 2017

This growing interest in assessing and improving the effectiveness of indirect tax controls is being driven in part by tax authorities. The Organisation for Economic Co-operation and Development's (OECD) Forum on Tax Administration is promoting the establishment of tax control frameworks for ensuring the accuracy and completeness of tax returns and disclosures, characterized by enterprise-wide controls, documented governance processes, and regular monitoring and enforcement. Organizations in the European Union could soon be required to establish compliance management

systems that give tax authorities visibility over taxpayers' underlying controls and processes. The tax authorities or trade associations of France and Germany, for example, have already issued voluntary guidelines for such systems.

In this environment, organizations not only need to establish processes for determining their controls are effective, they also need to regularly re-evaluate their indirect tax controls and overall control frameworks as tax authorities' requirements and market conditions evolve.

How do you ensure these processes and controls are embedded in the underlying business process?



Note: Charts may not total to 100 percent due to rounding.
Source: KPMG International, 2017

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 by centralizing the coordination and performance of transaction processing work. Currently, most global organizations prepare their indirect tax returns in-house, primarily locally but with a rising proportion prepared centrally in shared service centers or global business services centers.

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. Many organizations see indirect tax compliance as a top candidate for outsourcing, given the specialized resources and significant technological investments required to manage an organization's global indirect tax obligations. Indirect tax functions can also manage the ebb and flow of indirect tax

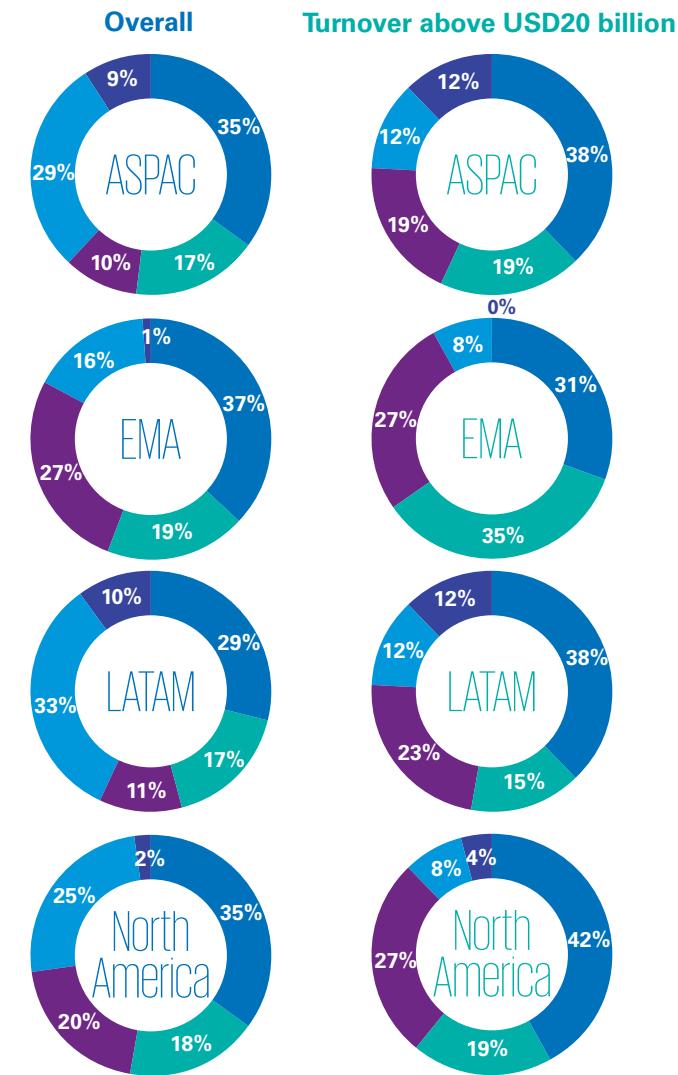
compliance activities by replacing the fixed costs of full-time employees with the variable costs of third-party service contracts.

In the next 3 years, a majority of organizations say they plan to re-orient their compliance models to rely significantly more on outsourcing, allowing them to exploit economies of scale that third-party service providers can bring and focus more on their own core activities.

Companies that are moving toward more outsourcing also have a new range of locations to choose from as new outsourcing centers for indirect tax have emerged in Eastern Europe (e.g. Poland, Hungary), Latin America (e.g. Costa Rica, Bogotá) and the Asia Pacific (e.g. Kuala Lumpur, Malaysia).

Another recent development has seen the tax employees of large global companies move into global professional services firms — in one case, into member firms of KPMG — followed by the outsourcing of indirect tax work to those firms in order to leverage their investments in people and technology.

What is the predominant compliance model in your business?

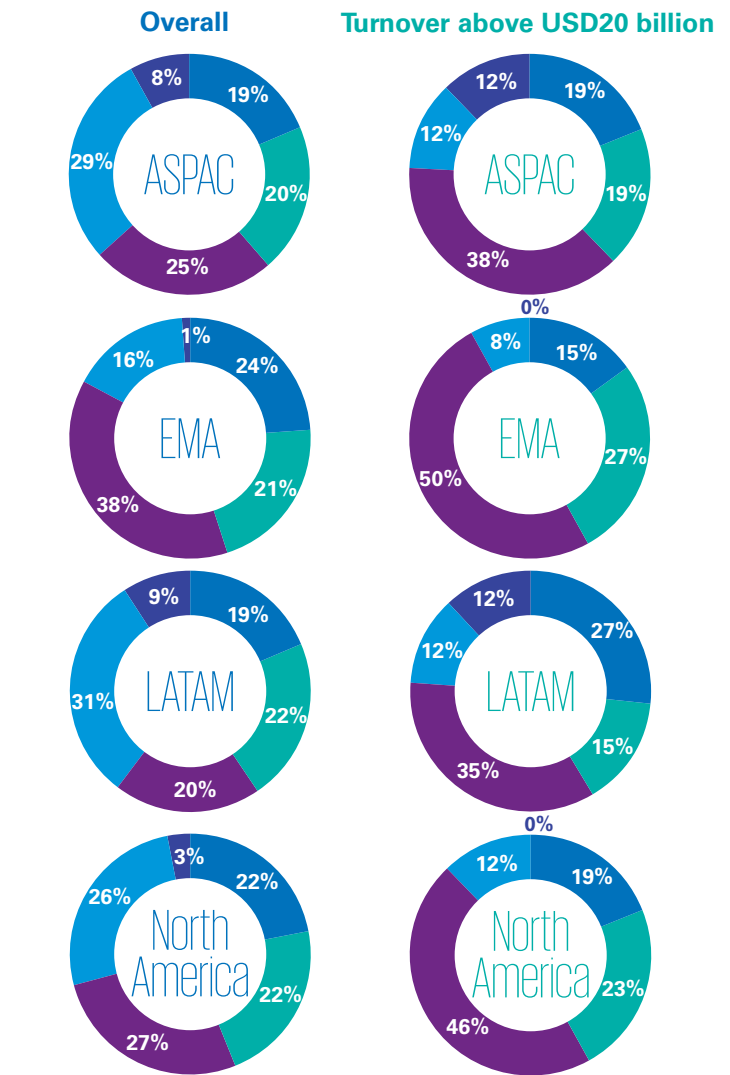


Legend: In house (local) (dark blue), In house (centralized/SCC) (teal), Outsourced (purple), Don't know (light blue), Other (dark blue)

Note: Charts may not total to 100 percent due to rounding.

Source: KPMG International, 2017

What do you expect the predominant compliance model to be in your business in 3 years?



Investing in technology and resources

Over the 3 next years, indirect tax leaders say they intend to make technology their top priority for investment, both overall and for companies having a turnover above USD20 billion, signaling a significant shift in focus.

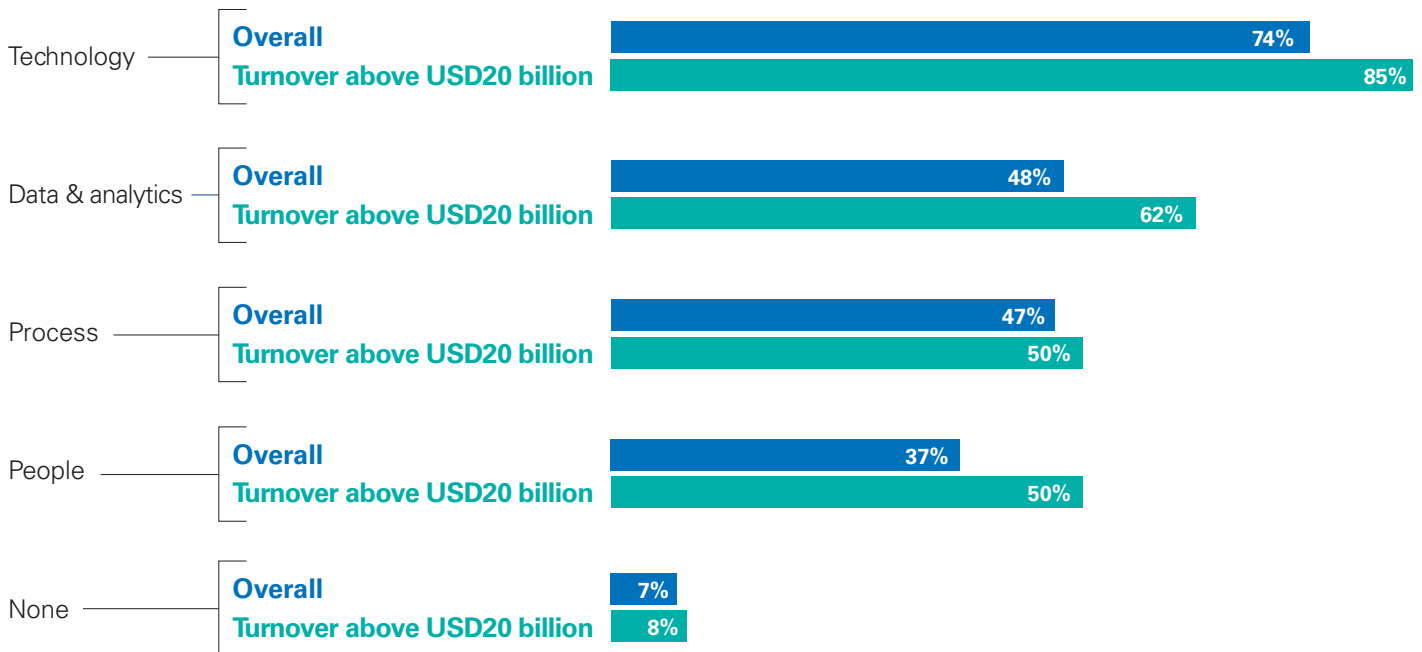
Until recently, indirect tax functions were concerned primarily with increasing head counts and improving processes. The latest rounds of finance transformation, however, aim to drive down costs, putting more focus on efficiency and less focus on people. Given the significant reductions won through post-2008 financial crisis finance transformations, cost-cutting mandates today are more difficult to achieve. Already lean indirect tax departments have few options to cut costs and improve efficiency. Their leading opportunities are to reduce costs through outsourcing (discussed earlier) and technology, particularly through the automation of error-prone, manual processes related to input credits and expenses.

This shift in focus also 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. To prepare for real-time demands for detailed information that is driving the next generation of compliance, indirect tax functions need more control and visibility of their organization's transactional

data. And as governments and the broader public seek more transparency and responsibility from global organizations when it comes to tax, indirect tax leaders need to understand the details of their tax data and how it is governed. In the near future, technology may offer one of the only viable solutions for verifying the accuracy and completeness of transaction-level data.

Despite the growing imperative to invest in technology, some indirect tax directors may be ambivalent, perhaps feeling under threat from the ways technology may change their jobs. Advances in robotics, artificial intelligence and machine learning are changing necessary skill sets. Future indirect tax executives will need to supplement their depth of technical indirect tax knowledge with technology skills. 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. 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.

Which of the following do you plan to invest more in, in the next 3 years?



Source: KPMG International, 2017

Focus on trade compliance functions

Priorities and performance

With trade compliance functions still evolving, only a minority of these functions have set metrics to monitor their performance. Without specific metrics and quality data to support them, trade compliance functions are unable to determine or demonstrate their value to the organization. As a result, global trade functions may have difficulty making the case for future investments in technology, automation and processes that are needed to help fulfill their potential.

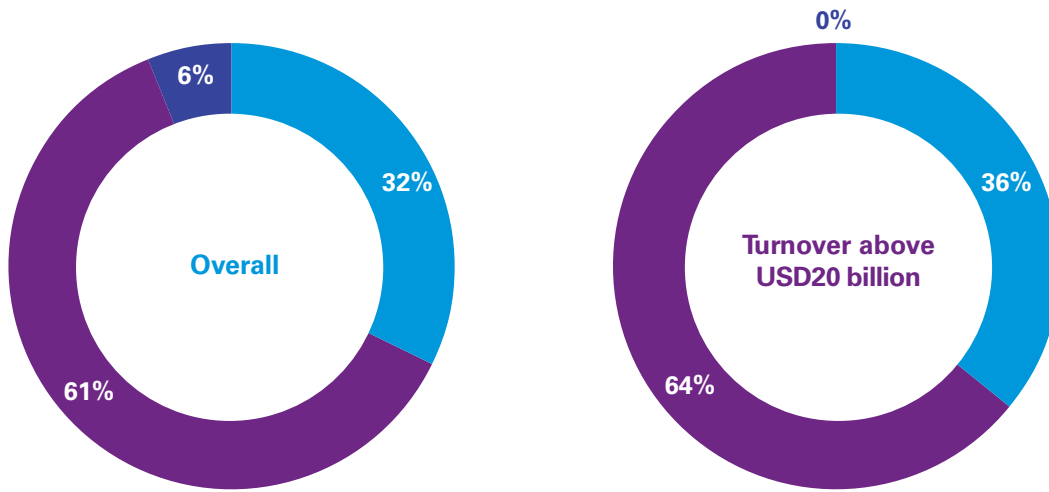
For trade compliance functions that have established performance metrics, duty minimization and cost reduction are cited most often, followed by other cost-related measures such as minimization of interest and penalties and accuracy of import declarations. Fewer of these companies report having metrics related to timely and accurate submission of declarations, suggesting that compliance has taken a back seat to cost reduction, particularly in organizations with over USD20 billion in annual turnover.

Reducing external provider spend is one cost area that organizations are giving less priority in terms of performance measurement. Given the dynamic changes occurring in the global trade environment — from Brexit through US tax reform and renegotiation of the North American Free Trade Agreement to new agreements like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership — this trend may signify that organizations with cost-cutting agendas see the importance of external advice on managing the impact of these changes.

A more balanced range of metrics, covering not only cost reduction but also compliance and qualitative measures, is needed to help trade compliance functions articulate the strategic value they contribute. These qualitative measures could involve, for example, relationship-oriented activities such as dealings with customs authorities, interaction with other functions, and reducing spend on customs brokers, agents and forwarders.



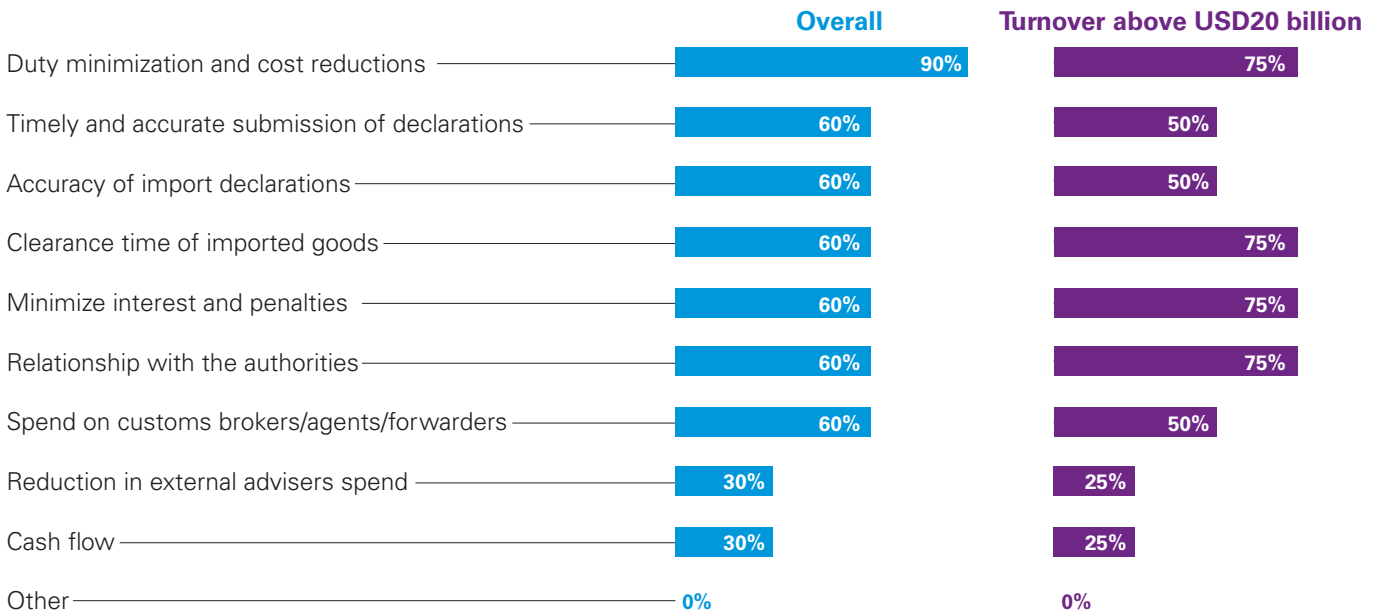
Are there specific metrics established by the organization to measure the effectiveness of your trade compliance department's performance?



Yes No Don't know

Note: Charts may not total to 100 percent due to rounding.
Source: KPMG International, 2017

If metrics are established, choose any/all that apply.



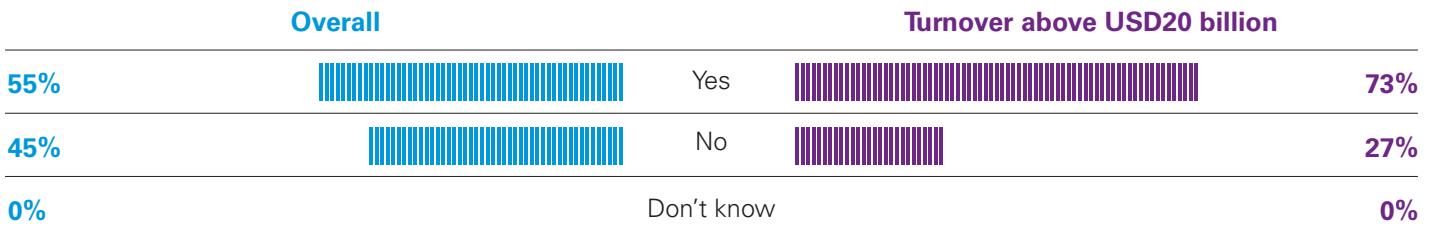
Note: Charts may not total to 100 percent as multiple responses allowed.
Source: KPMG International, 2017

Accountability and visibility

Organizations are continuing to move to a more global approach to trade compliance, as shown by the rising number of organizations that have a global head of trade compliance. While this trend was previously most prominent among organizations based in North America, the trend is clearly spreading to other regions. The rise of dedicated, centralized leadership is a further sign that the world's trade functions are continuing to mature, allowing them to gain efficiencies, leverage leading practices and enhance local and regional collaboration.

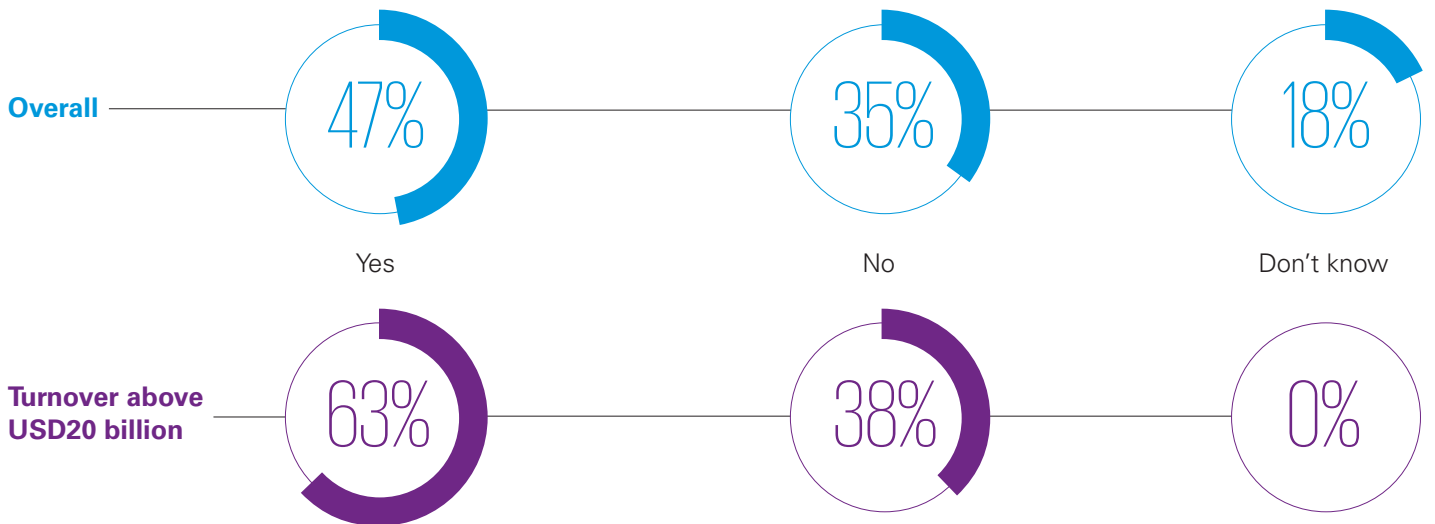
However, many global heads of trade compliance appear to be hampered by a lack of visibility over duty costs by country. A clear view of local costs and activities is a key to realizing the benefits of central leadership, but it appears that many organizations have not yet developed the systems and processes needed to enable effective global oversight over their trade compliance data. Integrated systems to support global trade can open a window on local trade activities and duty payments, helping trade compliance leaders understand and enhance, for example, their duty payments for specific products across locations.

Do you have a global head of trade compliance or comparable function?



Note: Charts may not total to 100 percent due to rounding.
Source: KPMG International, 2017

Does the global head of trade compliance have visibility over duty costs by country?



Note: Charts may not total to 100 percent due to rounding.
Source: KPMG International, 2017

As with the regionalization of indirect tax functions, many trade compliance functions are developing regional trade compliance structures with dedicated leadership. Compared to other regions, however, there are notably fewer regional heads of trade compliance in the Latin America region.

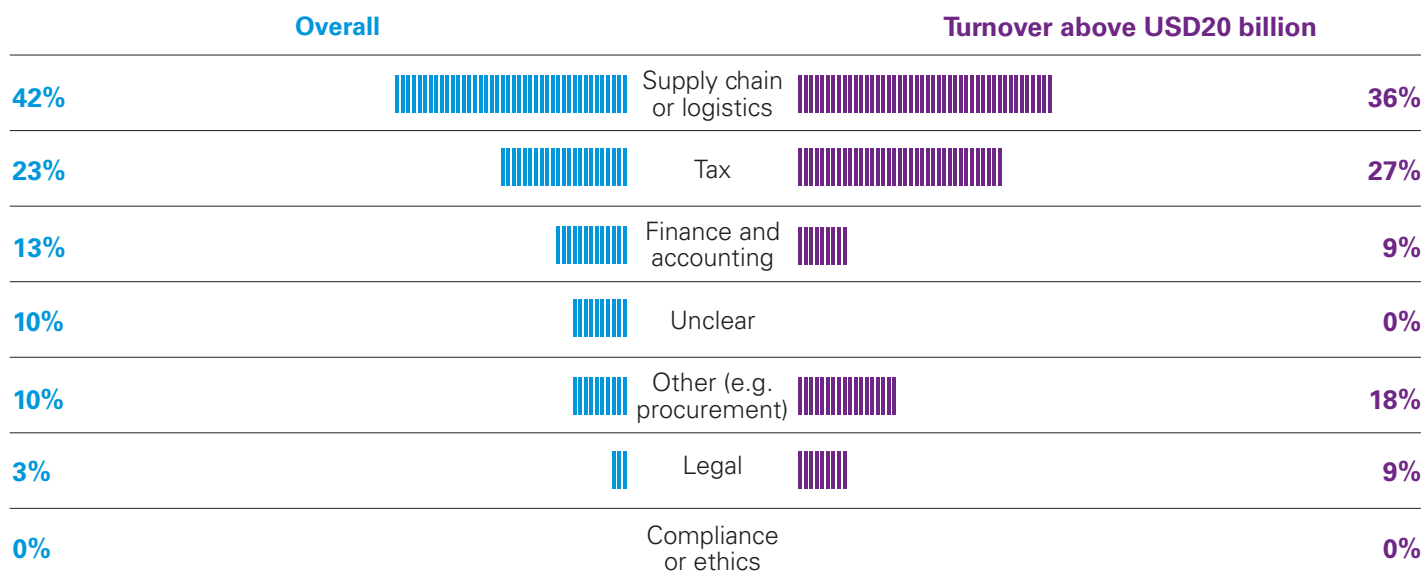
The result is somewhat unexpected, given the relatively high diversity among trade regimes in Latin America, along with higher trading costs and additional complexity stemming from the complex indirect tax and enforcement environment. The trend is less apparent among larger companies with over USD20 million in annual turnover, suggesting they have been quicker to recognize the merits of regional thinking and/or have larger, more sensitive operations in the region.

Unlike indirect tax functions, which overwhelmingly report through the broader tax function, there is no single structure emerging for the governance of trade compliance functions. Trade compliance functions most commonly report through

supply chain or logistics functions, but significant numbers of them report through the finance, tax or other functions (e.g. procurement or chief compliance officers).

This suggests that there is no one function where trade compliance may best reside, since accountability is spread across multiple departments and the desired reporting structure varies from one organization to the next. For some organizations, for example, reporting through the tax function may be advantageous, given its traditional compliance mindset. Also, as tax has become more transaction-oriented with the rise of GST/VAT and as corporate income taxes have dwindled globally, we may begin to see stronger alignment of tax and trade functions. Other organizations may opt to have trade compliance report through compliance and ethics functions, a newly emerging functional focus that could make sense for many trade operations. A careful strategic analysis of functional alignment is required to determine the appropriate fit.

Who has ultimate accountability for trade compliance in your business?



Note: Charts may not total to 100 percent due to rounding.

Source: KPMG International, 2017

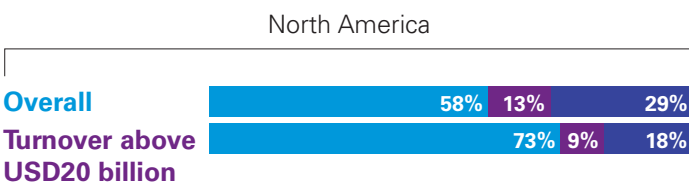
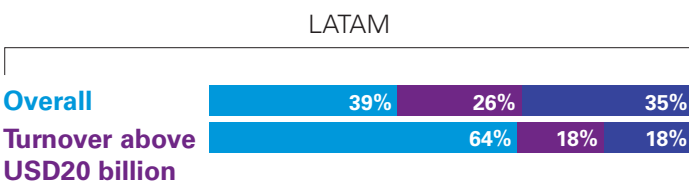
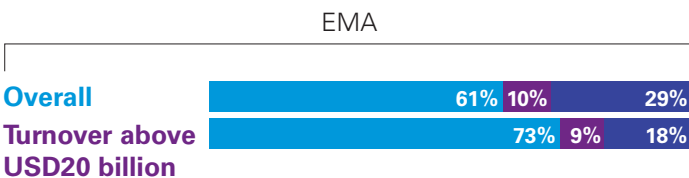
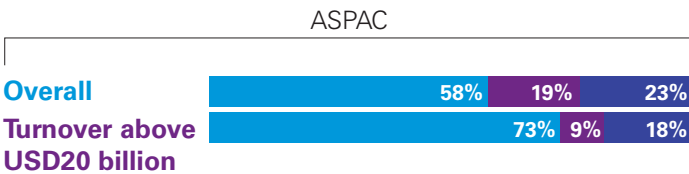
Risk and controls

Just as global trade compliance functions lack visibility over local activities, many of them lack knowledge of risks in the various regions: about 60 percent in the European, Middle East and Africa region, and under half in the other regions. Organizations that have identified risks, which include a higher proportion of larger companies with over USD20 billion in annual turnover, also tend to have embedded processes and controls in underlying business processes to manage them.

To verify the effectiveness of these processes and controls, the trend toward internal peer-to-peer self-assessment is increasing. Recent years have also seen a rise in the number of organizations engaging in internal or external audits to gain assurance that their controls are well designed and effectively deployed.

While third-party trade compliance audits offer the highest level of assurance, many companies are gaining acceptable comfort by balancing high volumes of smaller internal audits and peer assessments with external audits of selected areas of particularly high risk or strategic importance.

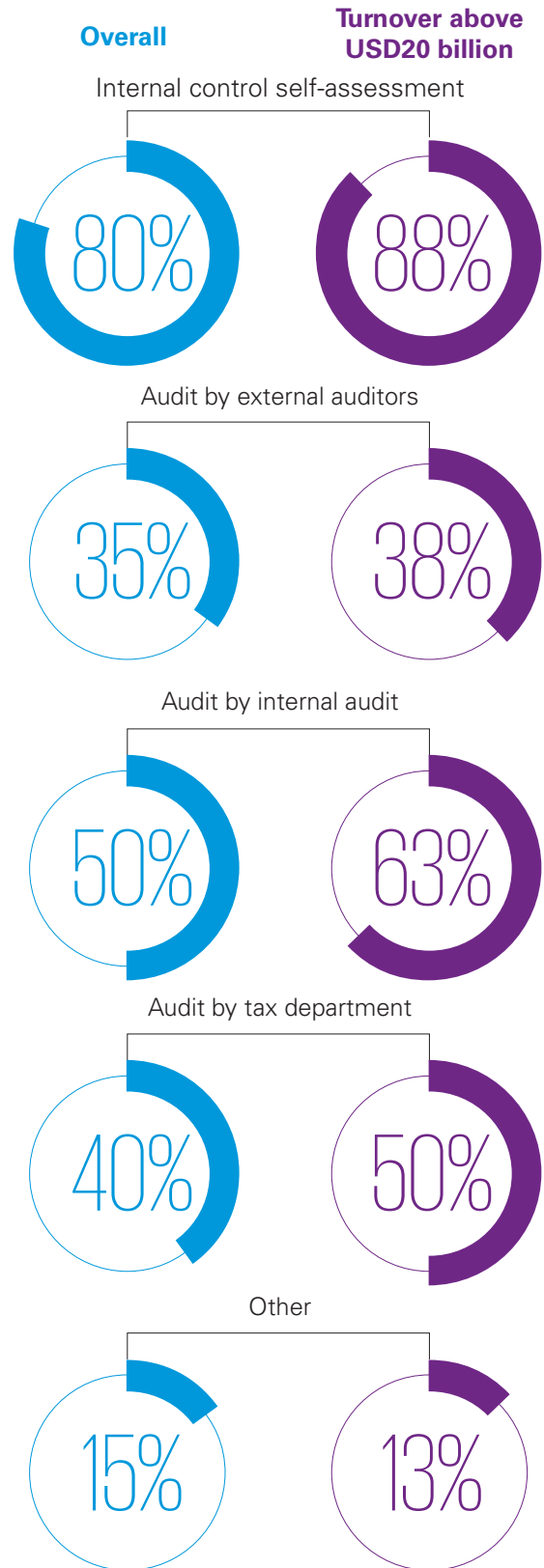
Have you identified the key trade compliance risks in the following regions?



Yes No Don't know

Note: Charts may not total to 100 percent due to rounding.
Source: KPMG International, 2017

How do you ensure that these processes and controls are embedded in the underlying business process?



Note: Charts may not total to 100 percent as multiple responses allowed.
Source: KPMG International, 2017

Evolving compliance models

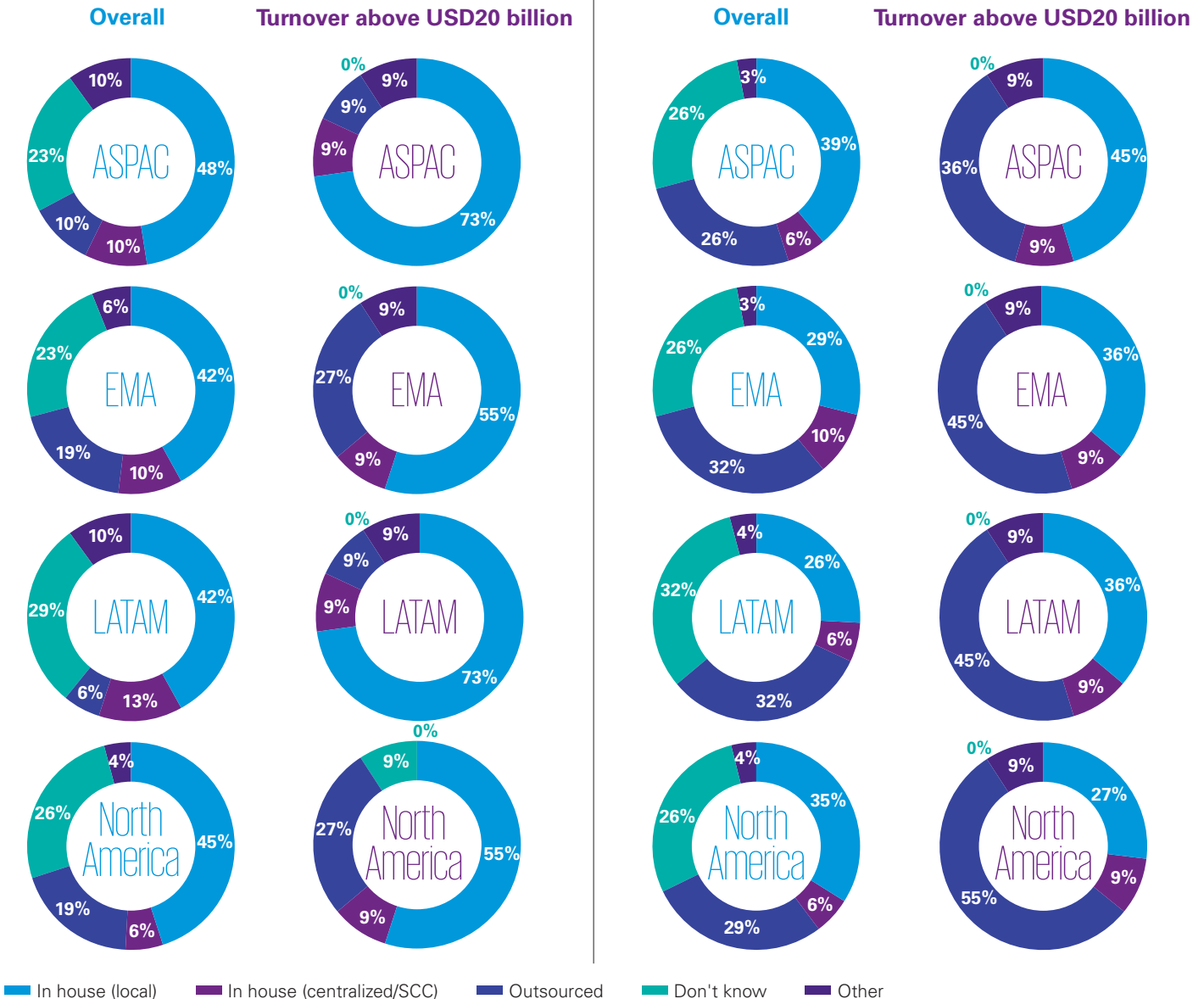
Compliance models among trade functions are still predominantly local, although a shift toward more centralized models, including shared service centers, is expected as trade compliance functions continue to mature and more global and regional heads of tax are appointed. As with indirect tax functions, centralization of trade compliance provides stronger governance and control in setting global standards, leveraging local solutions and sharing knowledge. Compared to indirect tax functions, however, the shift toward centralization is more limited to date among trade compliance functions. This could suggest that trade compliance functions are at an earlier stage of maturity, but it is also possible that some organizations have determined that some trade compliance processes are better handled locally.

Experience suggests that a centralized model should not necessarily cover all trade compliance activities. A mix of local and central processes can potentially provide greater benefits, depending on the individual processes involved and how well they lend themselves to automation.

Looking ahead, there is an expectation that companies will move toward a more outsourced model in the next 3 years. Again, this trend is in step with indirect tax functions, which also plan to outsource significantly more activities so they can exploit the technology investments and economies of scale of third-party service providers and focus more on strategic pursuits and adding value.

What is the predominant compliance model in your business?

What do you expect the predominant compliance model to be in your business in 3 years?



Note: Charts may not total to 100 percent due to rounding.

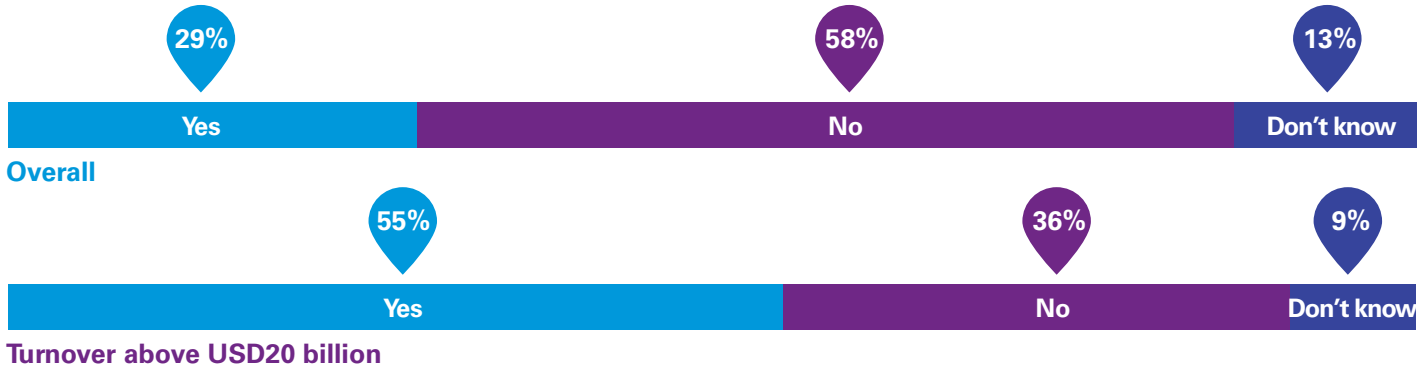
Source: KPMG International, 2017

Investing in technology and resources

Only a small majority of larger organizations with USD20 billion of annual turnover say they use global trade management software and technology to manage aspects of their import/export activities. Overall, the use of global trade management software is even lower, as reported by just

over half of organizations. Where such solutions are in place, they are most commonly used to improve efficiency and data quality in operational processes such as import and export classification, free trade agreements and import valuations.

Does your organization currently utilize a global trade management system (GTMS) for any aspect of import/export activities?

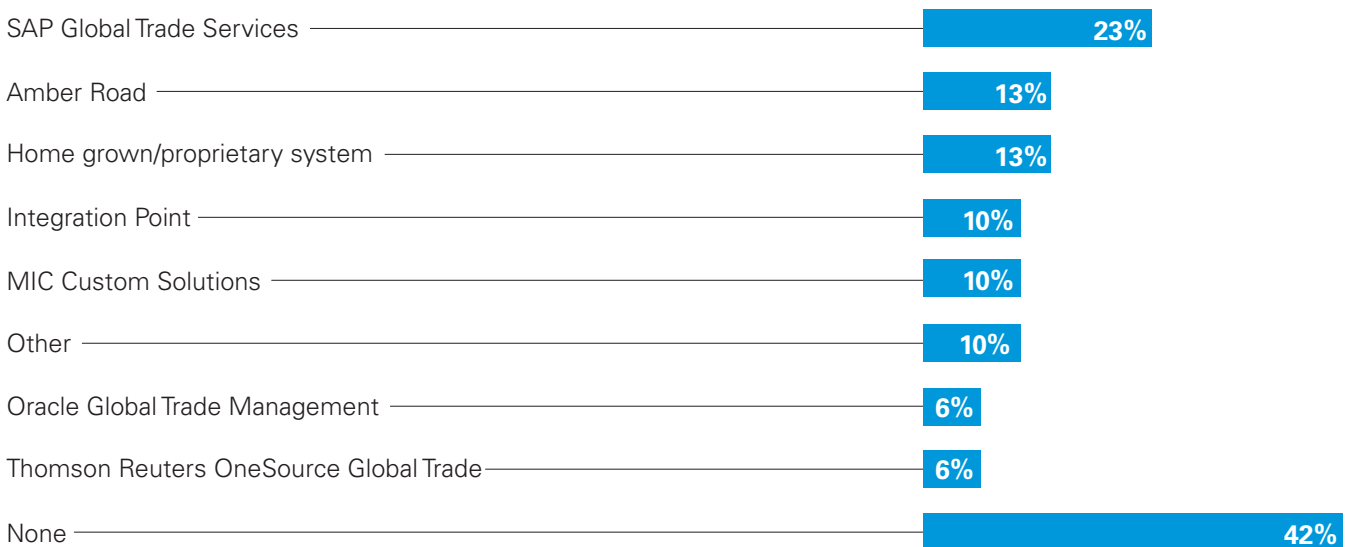


Note: Charts may not total to 100 percent due to rounding.
Source: KPMG International, 2017

Interestingly, among these organizations, the use of home-grown systems has fallen significantly. Most are moving away from spreadsheet-based processes and ad hoc adaptations of enterprise resource planning or warehouse management systems and toward more effective, accurate and up-to-date

commercial platforms. These systems include SAP Global Trade Services, Amber Road, Integration Point and MIC Customs Systems, along with Thomson Reuters OneSource Global Trade solution.

Which global trade management platforms do you currently use?



Note: Charts may not total to 100 percent as multiple responses allowed.
Source: KPMG International, 2017

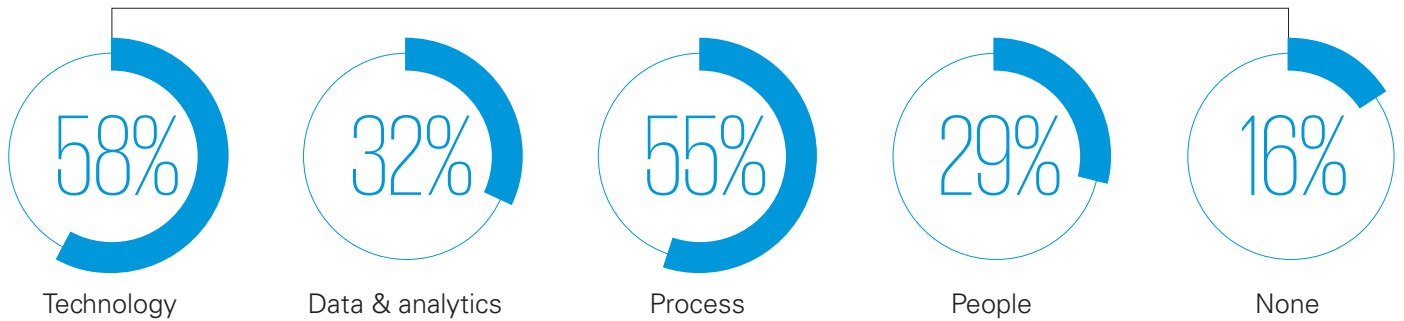
Organizations show a strong appetite for investment in the near term. Technology tops the list of priorities for investment in the next 3 years.

Most companies say that they have not been able to invest in technology because they lack the budget or organizational support to do so. This suggests that trade compliance leaders are struggling to make the compelling case for these investments. Many trade compliance leaders say they believe their leading opportunities for adding value lie in improving their processes and their risk management. Only a small minority are looking beyond improving the status quo to technology's transformative opportunities.

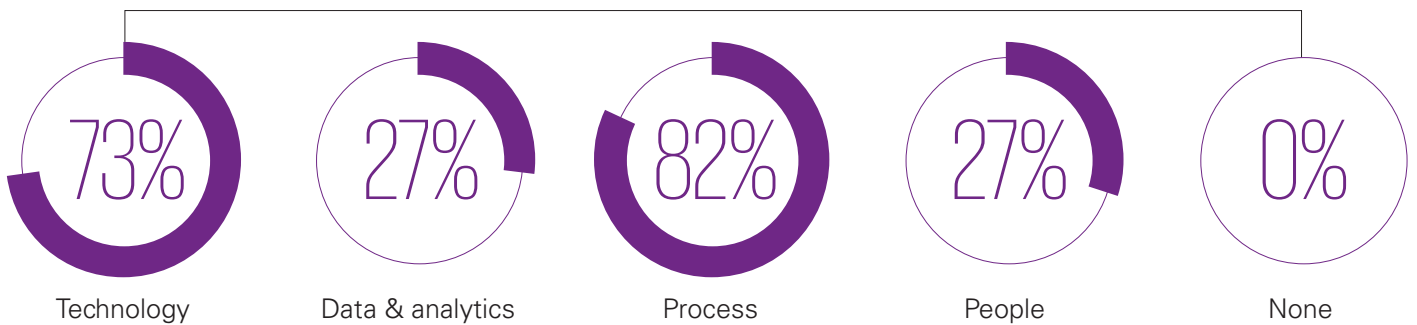
A stronger case for investment could be made by highlighting technology's power to deliver deeper insights into the flow of goods through enhanced use of data and reporting. Trade compliance leaders can benefit by positioning any proposed systems implementation holistically as a way to transform the trade compliance function and drive value — highlighting how the function will evolve and what tangible benefits to the organization will accrue.

Which of the following do you plan to invest more in, in the next 3 years?

Overall



Turnover above USD20 billion



Note: Charts may not total to 100 percent as multiple responses allowed.
Source: KPMG International, 2017

Key actions for indirect tax and trade compliance leaders

Today's indirect tax and trade compliance leaders face an extraordinary array of challenges and opportunities in the indirect tax and trade environment — from Brexit to tax reform in Europe and the US to the introduction of VATs in India, China and the Gulf states, together with the increasing digitalization of reporting and compliance. Indirect tax and trade compliance leaders need to react quickly to determine their functions can adapt to complex new demands, and this requires having flexible systems, processes and technology that allows teams to respond immediately to foster compliance. At the same time, these functional leaders need to maintain a laser-like focus reducing costs and driving value.

As this report shows, indirect tax and global trade functions are still evolving. Many of them still have some way to go before they can not only meet compliance obligations efficiently and effectively while providing robust governance and control and contributing to the organization's strategic thinking.

To meet these goals, leaders should consider how they can:



Make the most of technology and data

Harnessing the power of technology, data and analytics remains a major challenge for most indirect tax and trade compliance functions. More investment in this area is clearly needed and desired. Indirect tax and trade compliance leaders can gain their company's support by articulating their future strategic role and by planning a blueprint for technology that not only increases automation but also informs important decisions about cash flow and supply chains.



Create performance-driven cultures

Metrics link strategy to action, by clarifying what's most important for the organization. Global heads of indirect tax and trade compliance build targets that can achieve compliance and also improve the business. For indirect tax, this often revolves around improving cash flow by collecting faster and more thoroughly, and only paying what's due. For trade compliance, it could be cutting the cost of goods sold, or making better use of treaties or free trade zones.



Build truly global functions

Appointing a global head is just the start. Organizations need standardized procedures, global systems and oversight across every country and region. In addition to providing scale efficiencies and consistency, a centralized model helps determine that specialists in indirect tax and trade compliance are making the key decisions. It also enables greater collaboration, transfer of good practices, and a focus on strategic goals.



Focus on risks

The risks facing these two functions can have far-reaching consequences for companies. In the case of indirect tax, errors or inefficiencies can have a huge impact upon cash flow, while inefficient trade compliance can seriously hinder the global supply chain. A strong focus on risk management can help determine that businesses are compliant (avoiding penalties and investigations) and consistent (through high-quality, independent audits).

We can help

KPMG member firm professionals offer a range of global indirect tax services that can help you improve how your organization manages indirect tax and trade compliance.

Advisory

- advising on the tax treatment and structuring of transactions and supply chains
- advising on the indirect tax consequences of entering new markets and undertaking corporate transactions
- assisting with studying, implementing and managing customs duty savings opportunities, including warehouses/zones, reliefs, customs value reduction and duty rate reduction
- assisting in reducing indirect tax costs and in managing transfer pricing matters and related valuation issues
- supporting businesses subject to tax audits or other investigations by tax or customs' authorities
- in certain countries, KPMG member firms can also advise on the legal aspects* of indirect tax, including contract review, dispute resolution and litigation.

Governance, process and technology, analytics

- working with in-house tax teams to help develop and execute effective indirect tax management planning including effective systems, processes, controls and governance
- designing, deploying and enhancing global trade management systems and trade automation
- using leading business transformation tools to design Target Operating Model compliance organization and governance planning
- indirect tax, trade compliance and non-tax data analytics — assistance with tax engine implementations.

Compliance

- advising on effective global compliance planning
- compliance outsourcing, *in-sourcing and co-sourcing
- tax management services
- reverse audits
- global VAT recoveries.

* Legal and outsourcing services may not be offered to US SEC registrant audit clients and their affiliates, or where otherwise prohibited by law.

Related publications

Benchmarking against comparable tax departments can be a powerful tool for reflecting on your current state and planning for the future.

Explore the full series of benchmarking publications at kpmg.com/taxbenchmarking.



Global Tax Department Benchmarking Survey

An ongoing survey of tax leaders around the world, which considers ranges of responsibilities, department composition, budget structures and other data points to help tax leaders assess their departments today, and consider how to evolve them for the future.



Global Tax Disputes Department Benchmarking Survey

A special report that takes an in-depth look at the issues faced by those in charge of managing their company's tax disputes, and the processes, practices, and resources they have in place to meet these challenges.



Global Tax Department Benchmarking: Latin America special report

A special report that takes an in-depth look at the top issues, priorities and leading practices of these tax leaders as they deal with the rapidly changing tax environment in Latin America.

Contacts

Tim Gillis

Head of Global Indirect Tax Services

KPMG International

T: +1 202 533 3700

E: tgillis@kpmg.com

Stefan Böhler

Partner

Head of Indirect Tax, KPMG in Germany

T: +49 711 9060 41184

E: sboehler@kpmg.com

Laurent Chetcuti

Partner

FIDAL

T: +33 1 55 68 14 47

E: laurent.chetcuti@fidal.com

Chris Downing

Head of Global Indirect Tax Process & Technology

Partner, KPMG in the UK

T: +44 20 7311 2684

E: chris.downing@kpmg.co.uk

Gary Harley

Partner

KPMG in the UK

T: +44 77 8872 8683

E: gary.harley@kpmg.co.uk

Michael Krell

Partner

KPMG Global Services Hungary

T: +36 1 887 5505

E: michael.krell@kpmg.hu

Christopher Young

Principal, Trade & Customs

KPMG in the US

T: +1 312 665 3229

E: christopheryoung@kpmg.com

Doug Zuvich

Head of Global Trade & Customs Services

Partner, KPMG in the US

T: +1 312 665 1022

E: dzuvich@kpmg.com

KPMG Global Services Hungary is KPMG's Global Compliance Center of Excellence. Based in Budapest, Hungary, the center is comprised of multilingual professionals with pooled knowledge of the local reporting rules and practices in over 30 countries and with broad, collective experience in tax compliance, information technology and audit.

FIDAL is an independent legal entity separate from KPMG International and KPMG member firms.

kpmg.com

kpmg.com/taxbenchmarking



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2018 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Designed by Evalueserve.

Publication name: Global benchmarking report: indirect tax and trade compliance

Publication number: 135232-G

Publication date: March 2018