A look inside tax departments worldwide and how they are evolving

Summary report:
Global Tax Department Benchmarking

KPMG International

kpmg.com/taxbenchmarking

As a seasoned tax leader, you make key decisions every day to evolve your tax department and keep pace with unprecedented pressures, disruptive technological advancements, heightened compliance obligations and more — all while seeking to demonstrate value within your organization and beyond.

For tax executives of multinational organizations, benchmarking against comparable tax departments can be a powerful tool for reflecting on your current position and planning how to prepare your department for the future. To help, KPMG International conducts an ongoing survey of multinational tax departments. While the number of participants continues to grow, the resulting database is already believed to be the most robust of its kind on a global scale, with input from some 400 multinational tax leaders in more than 50 countries.

The data offers insights into tax departments and how they are evolving in terms of structure, governance, priorities, performance measures, through the use of technology and more.

What do the latest results 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 take 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' ERP 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 the survey data through to early 2018, and offers some important takeaways for tax leaders.

Contents

About the survey

— KPMG International's Global Tax Benchmarking Survey 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 400 leaders in charge of tax policy and operations of companies in all major sectors, with participants from 50 different countries.

— Over two-thirds of respondent organizations are public companies. About one-third of organizations have more than US$10 billion in annual revenue or turnover. Slightly more than 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.

— Tax leaders can still participate in the survey. By doing so, you will have the opportunity to receive personalized insights into how your tax department compares across key areas. Please visit kpmg.com/taxbenchmarking or email tax@kpmg.com to learn more.

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.

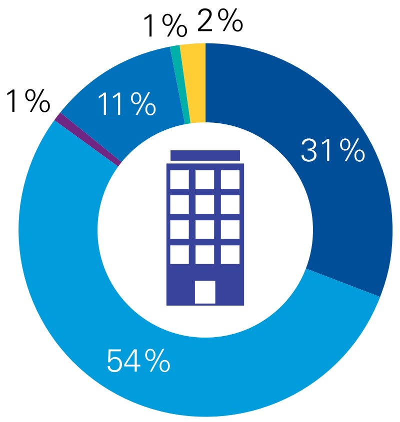
Survey results show that many companies are moving towards greater centralization of tax resources and activities, especially in the area of transfer pricing. However, companies may have opportunities to further centralize accountabilities and activities — for example, through greater use of shared service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

> **"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**

Reporting lines

Globally, the majority of tax functions still fall within the finance function, although 31 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.

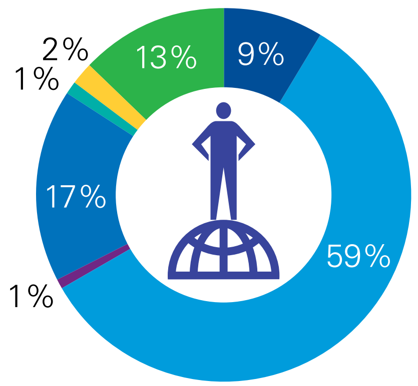
In your organization, which department does your central tax department fall within?



- As an independent department directly under executive management
- As part of finance
- As part of treasury
- As part of accounting
- As part of legal
- Other

Source: 2017 Tax Benchmarking Survey, KPMG International.

Who does the tax leader report to?



- Chief Executive Officer
- Chief Financial Officer
- Chief Operations Officer
- Head of Finance (other than CFO)
- Head of Treasury
- General Counsel
- Other

Source: 2017 Tax Benchmarking Survey, KPMG International.

Staffing and sourcing

On average, tax functions of respondent organizations have 17 full-time employees (FTE) at their tax department headquarters location, and an average of 19 FTEs at other locations.

Almost three quarters of tax departments are responsible for domestic reporting, while 60 percent have responsibility for global reporting. For the majority of respondents, the tax department has primary responsibility for:

— tax department administration

— business unit support and consulting

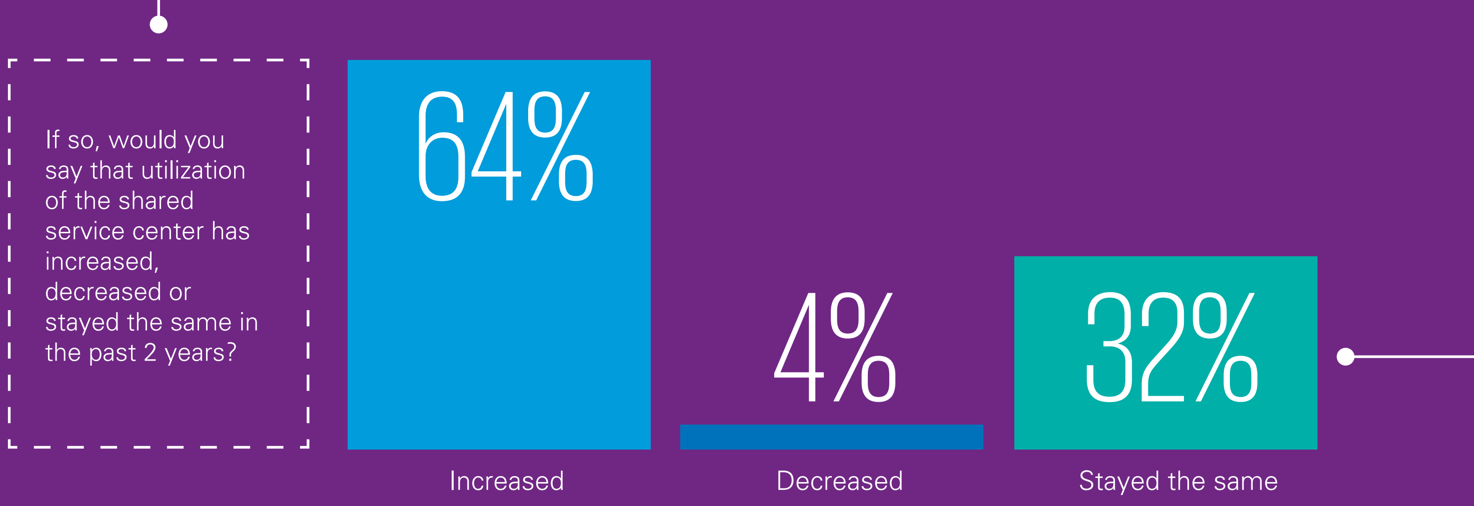
— research and planning

— risk management and governance

— controversy and audit defense.

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).

Does your tax department utilize a shared service center to handle any part of its function?



Source: 2017 Tax Benchmarking Survey, KPMG International.

What processes are delegated to the shared service center?

75%

Accountancy/general ledger

62%

Sub-ledgers

58%

Fiscal declaration processes

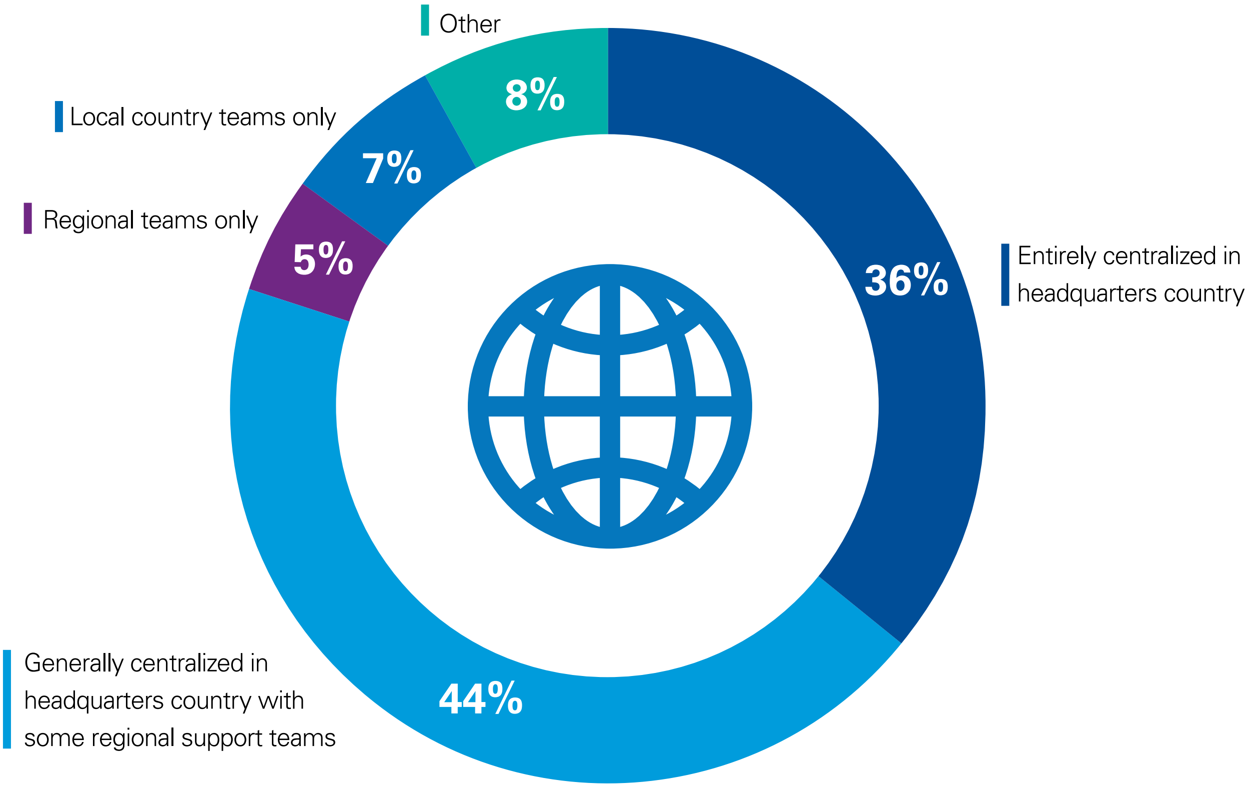
Structure of the transfer pricing function

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.

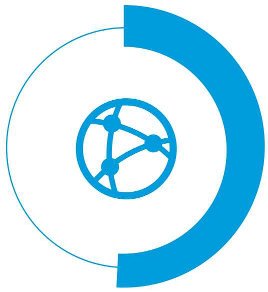
What is the operating model/organizational structure of your transfer pricing function?



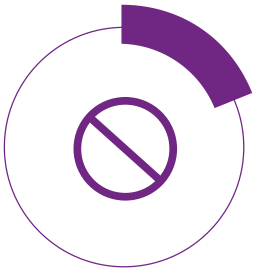
Source: 2017 Tax Benchmarking Survey, KPMG International.

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

72%
Yes, for domestic entities



51%
Yes, for foreign entities



19%
No, for neither domestic nor foreign entities

Source: 2017 Tax Benchmarking Survey, 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 that taxes are managed effectively and 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

Nearly 55 percent of respondent companies have a documented tax strategy or overarching tax policy document covering tax risks. Of these companies, just over half of respondents 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.

Board and business involvement in tax strategy

In 60 percent 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 30 percent of respondent companies.

Does a board member (or board-level individual) take responsibility/accountably for tax?

Source: 2017 Tax Benchmarking Survey, KPMG International.

> **"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**

Do you have a tax code of conduct to frame your risk tolerance and tax decisions? If so, is it public or private?

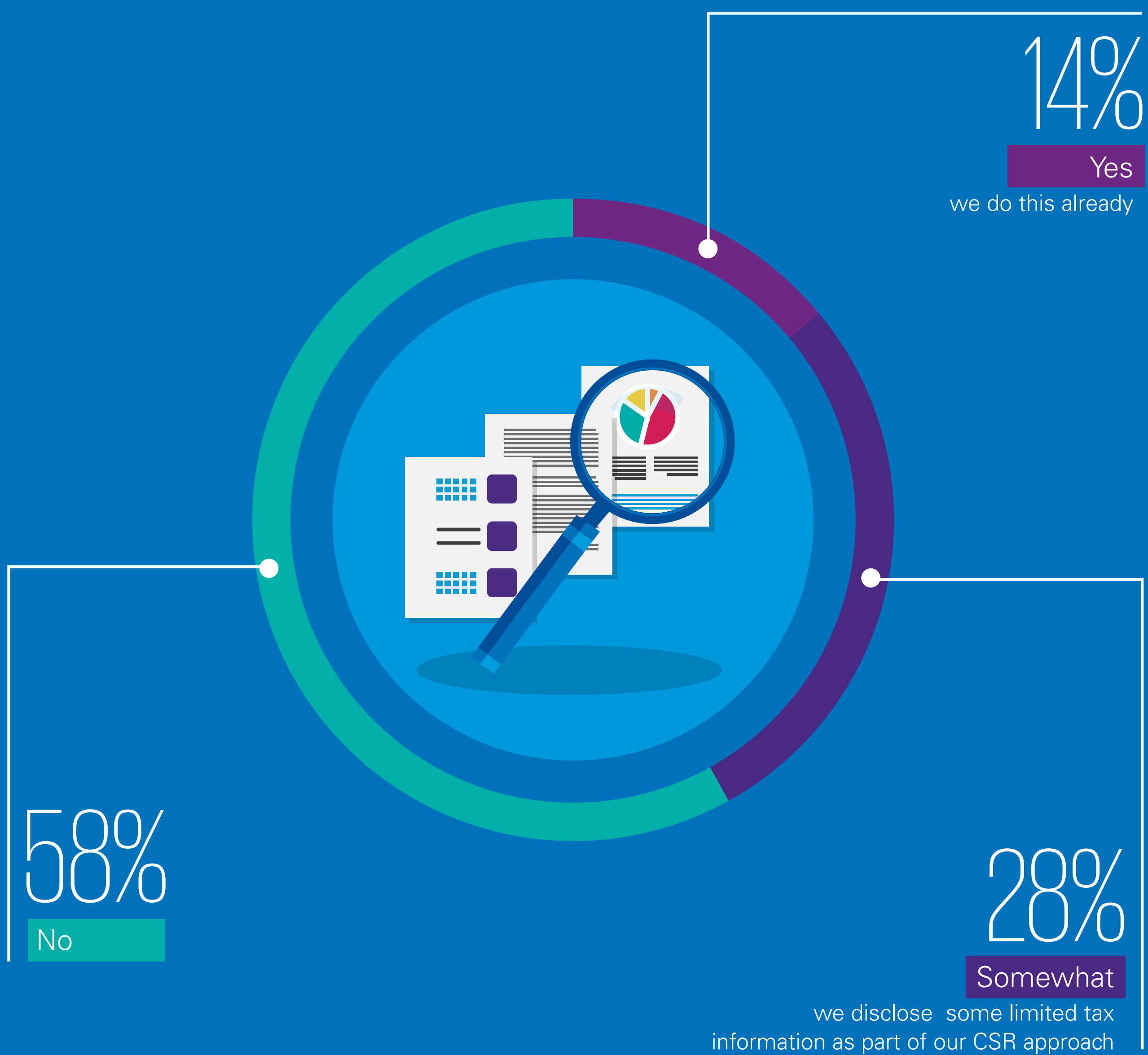
13% Yes, we have a tax code of conduct and it is publicly available

48% Yes, we have a tax code of conduct for internal use

38% No, we do not have a formal tax code of conduct

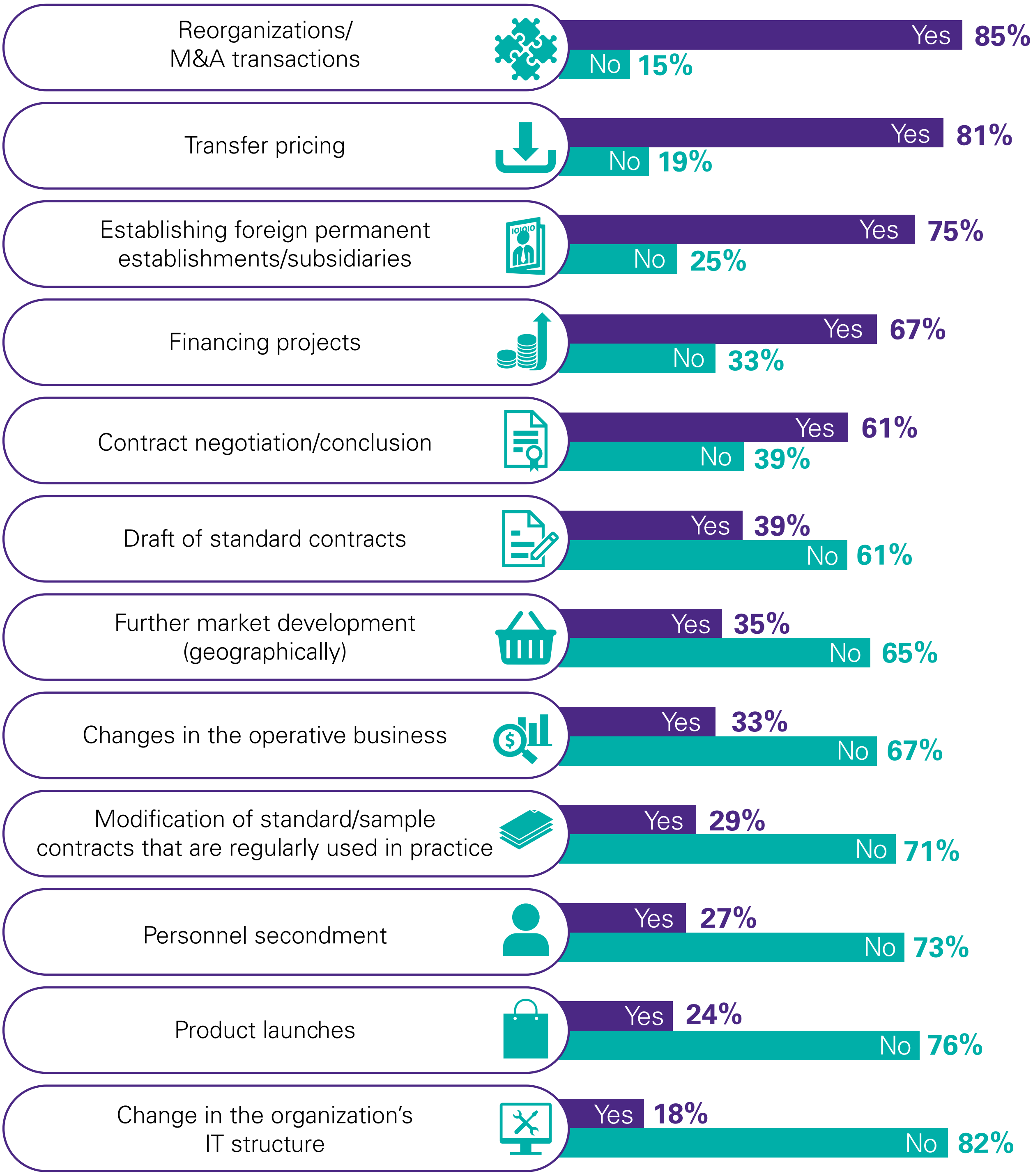
Source: 2017 Tax Benchmarking Survey, KPMG International.

Does your organization currently disclose your tax information publicly i.e. as part of your corporate social responsibility approach?



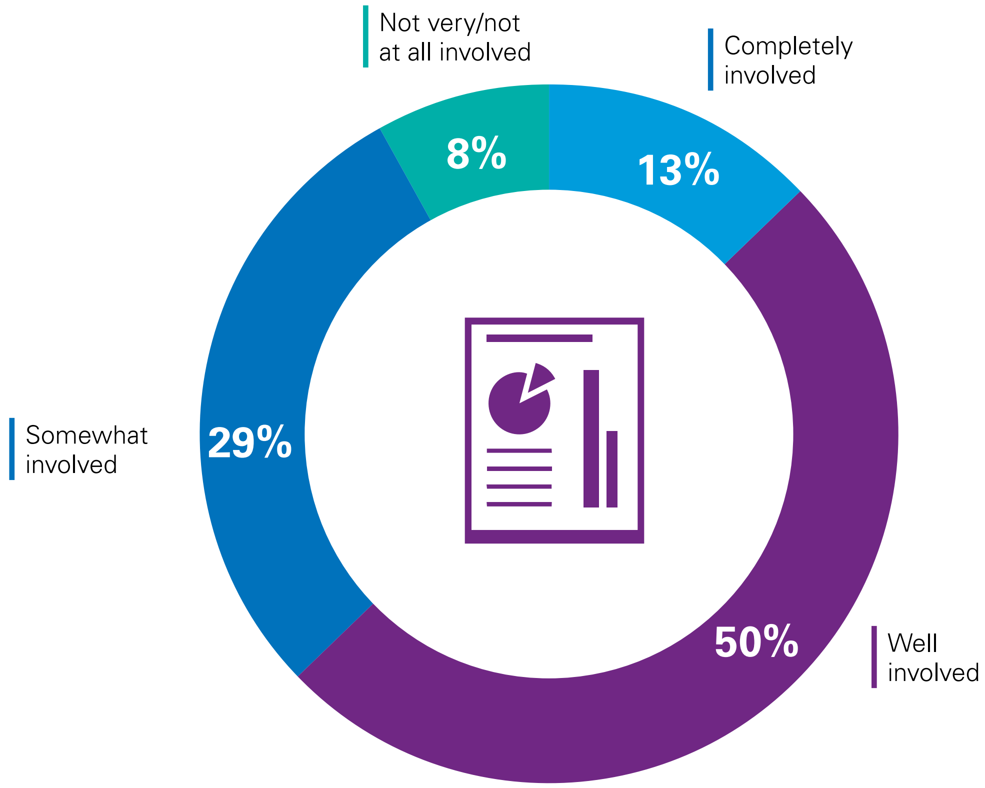
Source: 2017 Tax Benchmarking Survey, KPMG International.

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: 2017 Tax Benchmarking Survey, KPMG International.

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



Source: 2017 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 (55%)
3. meeting internal or jurisdictional tax deadlines (49%)
4. tax risks consistent with corporate risk profile (45%)
5. effective tax rate is at expected rate (40%).

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.

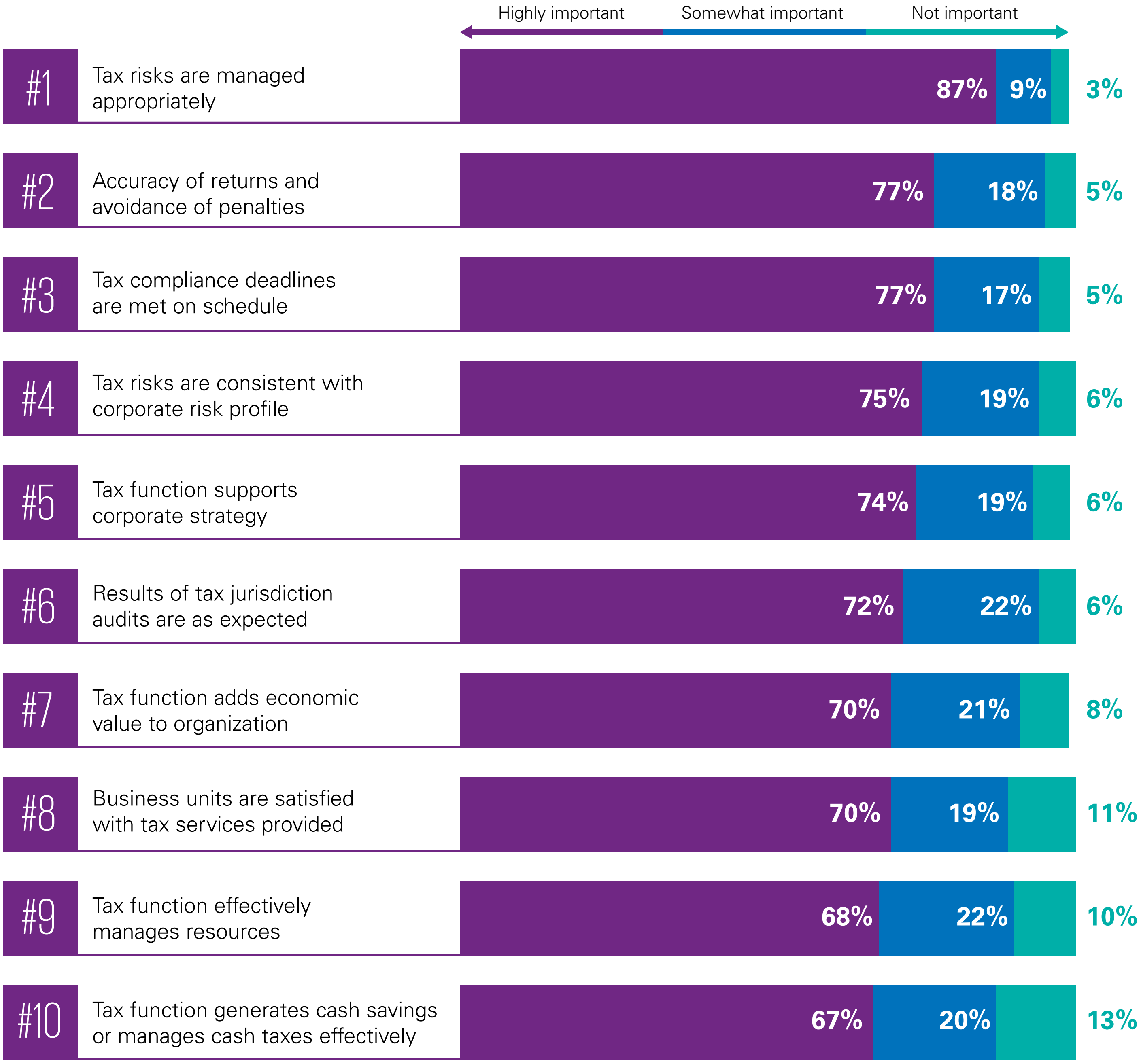
Key takeaways:

— 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.

Respondents ranked the following performance metrics criteria in terms of importance for management (on average; in ranked order of importance):



Note: Totals might not add up to 100% due to rounding.
Source: 2017 Tax Benchmarking Survey, KPMG International.

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.

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-seven percent of respondents expect their use of co-source resources from tax providers to increase moderately over current usage. A similar proportion 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.

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

Process standardization

Tightly connecting provision and compliance process

Consulting with business or operating unit

Formalizing risk management

Paperless environment

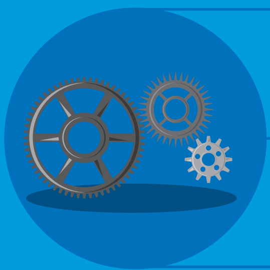
> **"Back office roles have always been challenged to do more with less, and tax is no different. Today, we see many tax departments working to automate repetitive processes and outsource standard compliance activities in order to focus more on the value-add aspects of the tax function. When done right, their tax professionals can concentrate on interpretation and analysis, decision making and strategy, leveraging their deepest skills and adding more value to the business."**
>
> **Sean Bloodwell**
> **Head of Global Compliance Management Services**
> **KPMG International**

What will your resource model look like in the next 5 years?

Total tax head count

Stay the same	Increase	Decrease
35%	55%	10%

Use of co-source resources from tax providers



Stay the same	Increase	Decrease
48%	47%	5%

Use of offshore resources to take advantage of wage arbitrage

Stay the same	Increase	Decrease
76%	22%	2%

Use of center of excellence for key functions
(e.g. transfer pricing, transactions)

57% Stay the same

43% Increase

0% Decrease

Use of finance shared service centers within the organization

52% Stay the same

46% Increase

2% Decrease

Reliance on a global tax department resource model
(i.e. virtual work environment that permits use of resources in remote locations not motivated by wage arbitrage)

63% Stay the same

36% Increase

1% Decrease

Note: Totals might not add up to 100% due to rounding.
Source: 2017 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. Twelve percent of companies that now use it plan to change their current software, while 20 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 14 percent of companies use it now, and only a handful of these companies plan to invest in changing it. However, 38 percent of companies plan to acquire country-by-country reporting software in the next 5 years.

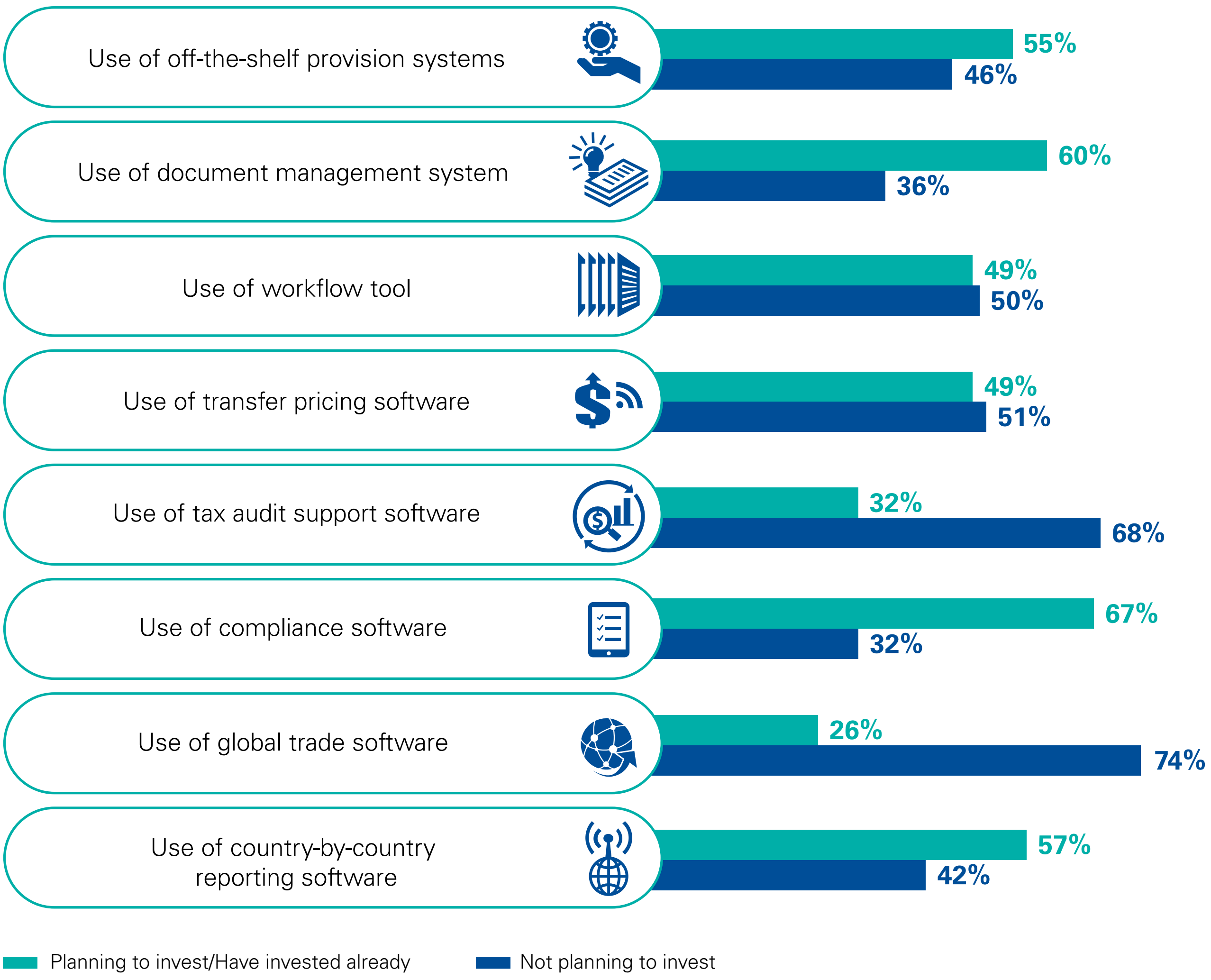
In terms of satisfaction with their companies' enterprise resource planning (ERP) systems in providing necessary tax data, a quarter of companies are ambivalent. Less than a quarter of respondents are satisfied with their current ERP systems.

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. use of tax data warehouse
5. investment in tax-specific technologies
6. tax sensitization of business forecasting systems and tax sensitization of G/L and other accounts.

> **"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**

As tax departments leverage technology for their processes to differing degrees, which tax technology tools are key areas of investment now and in the next 5 years?



Note: Totals might not add up to 100% due to rounding.
Source: 2017 Tax Benchmarking Survey, KPMG International.

What changes do you expect to see in the systems that supply tax information over the next 5 years?

Overall leverage of enterprise finance IT systems for tax purposes	Use of consolidation system data for tax purposes	Understanding of tax data needs by IT resources	Investment in tax-specific technologies
69% Increase	61% Increase	54% Increase	60% Increase
29% Stay the same	38% Stay the same	45% Stay the same	39% Stay the same
2% Decrease	1% Decrease	0% Decrease	1% Decrease




Note: Totals might not add up to 100% due to rounding.
Source: 2017 Tax Benchmarking Survey, KPMG International.

Tax sensitization of G/L and other accounts

51% Increase

48% Stay the same

0% Decrease

Tax sensitization of business forecasting systems

40% Increase

50% Stay the same

0% Decrease

Use of tax data warehouse

61% Increase

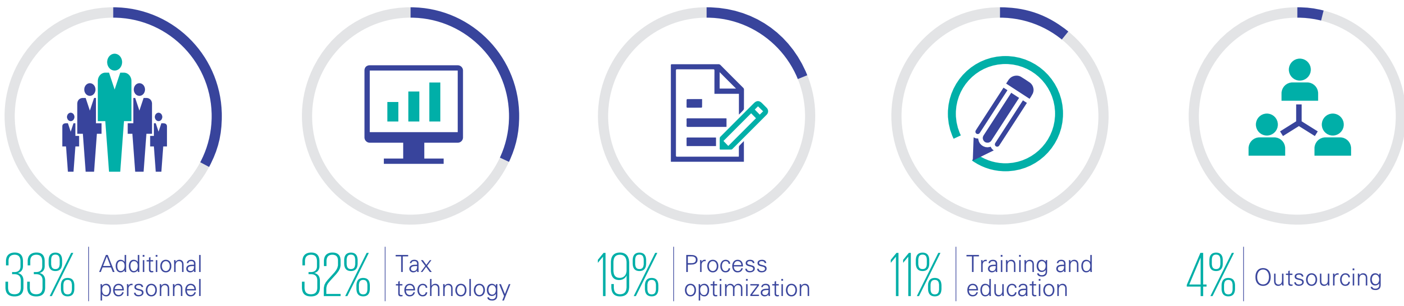
38% Stay the same

1% Decrease

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 of the following key area of your tax department, where would you invest?



Note: Totals might not add up to 100% due to rounding.
Source: 2017 Tax Benchmarking Survey, KPMG International.

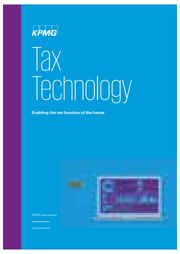
Key takeaways:

- 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.
- Less 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

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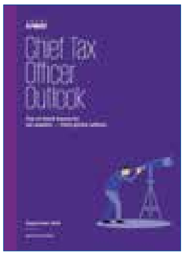

Chief Tax Officer Outlook

Online rates tool

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