A look inside tax departments in Europe and how they are evolving

Summary report:
European 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.

In this special report on tax departments within companies based in Europe, we zero in on data from 190 tax leaders of organizations headquartered in 15 European countries. The data offers insights into tax departments in the region and how they are evolving in their structure, governance, priorities and 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, Europe-based companies appear more or less satisfied with their current sourcing models but less satisfied with the ability of their companies' enterprise resource planning (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, followed by tax technology and process optimization.

This report presents a brief overview of selected key findings from the survey data through to early 2019, and offers some important takeaways for European 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 190 leaders in charge of tax policy and operations of companies in all major sectors, with participants from 15 different countries in Europe.

— About two-thirds of respondent organizations are public companies. Over one-third of organizations have more than US$5 billion in annual revenue or turnover. Almost half of respondent organizations have more than 10,000 employees globally. About three-quarters 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.

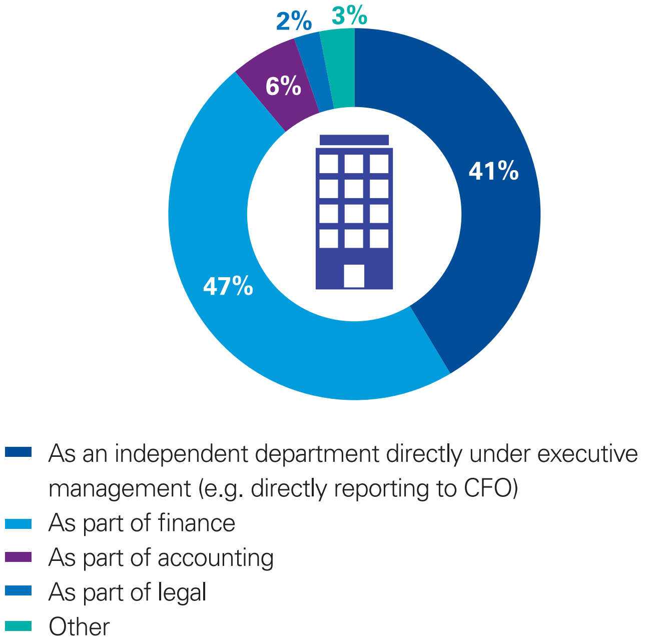
Survey results show that many companies headquartered in Europe are moving toward greater centralization of tax resources and activities, especially in the area of transfer pricing. However, these companies may have opportunities to further centralize accountabilities and activities — for example, through 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

For Europe-based companies, the majority of tax functions still fall within the finance function, although 41 percent are independent. Two-thirds of tax leaders report to the CFO or head of finance (other than CFO), while only 8 percent report to the CEO directly.

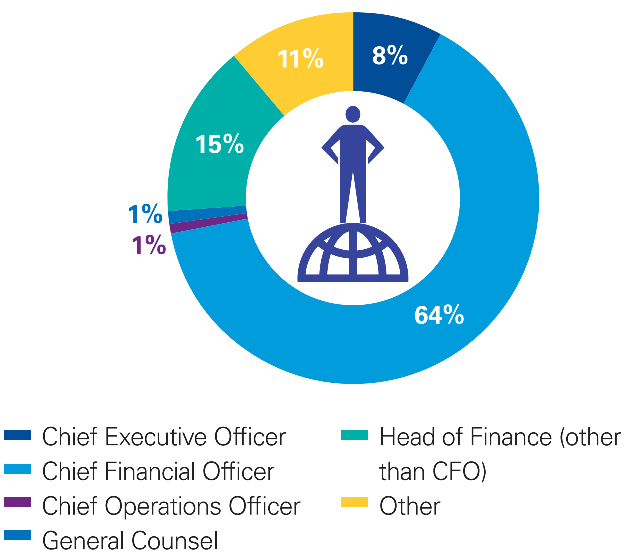
In your organization, which department does your central tax department fall within?



Note: Totals might not add up to 100% due to rounding.

Source: 2019 Tax Benchmarking Survey, KPMG International.

Who does the tax leader report to?



Note: Totals might not add up to 100% due to rounding.

Source: 2019 Tax Benchmarking Survey, KPMG International.

Staffing and sourcing

On average, tax functions of respondent organizations have 16 full-time employees (FTE) at their tax department headquarters location, and an average of 18 FTEs at other locations.

Two-thirds of tax departments are responsible for domestic reporting, while about 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

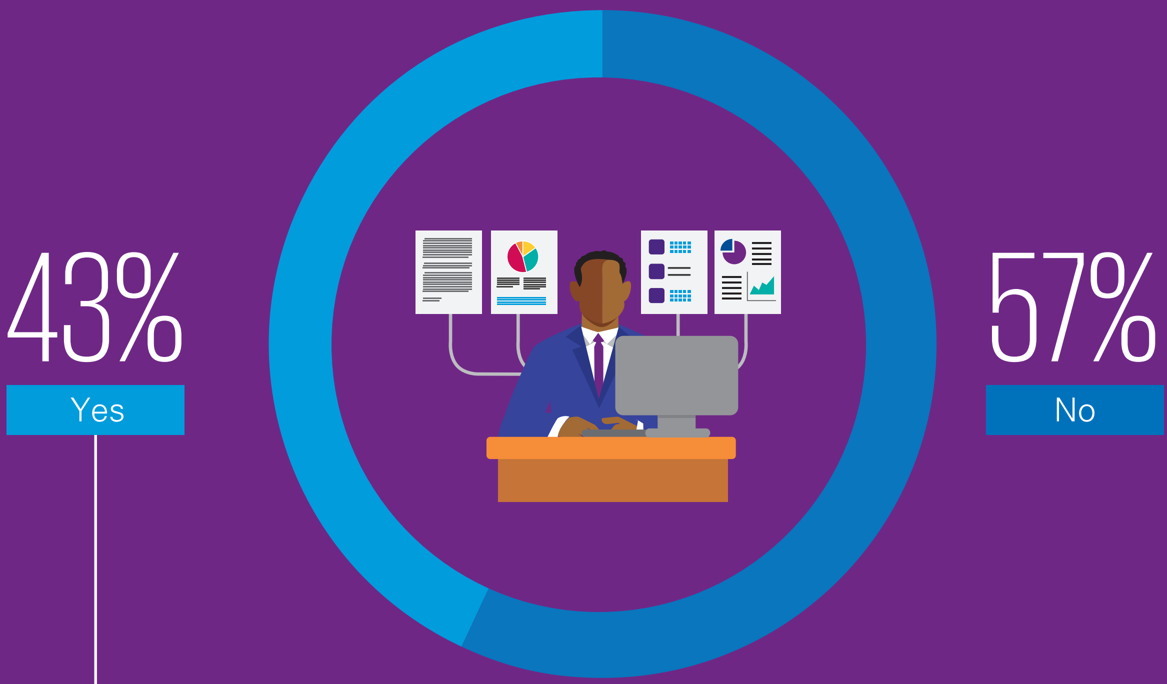
— research and planning

— risk management and governance

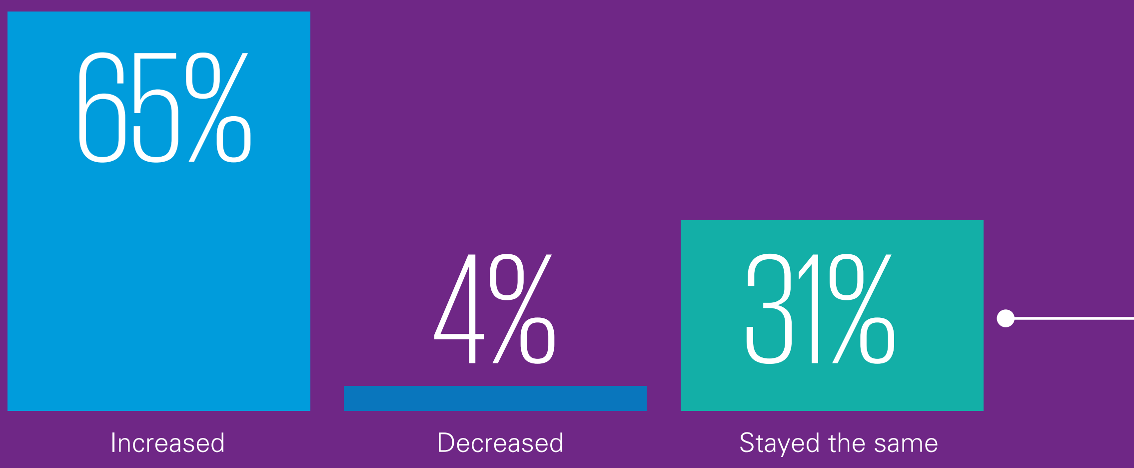
— controversy and audit defense.

A majority of tax departments do not use a shared service center (SSC) to handle any of their activities. Of those that do, over two-thirds have increased their SSC use, 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 value added tax (VAT) purposes).

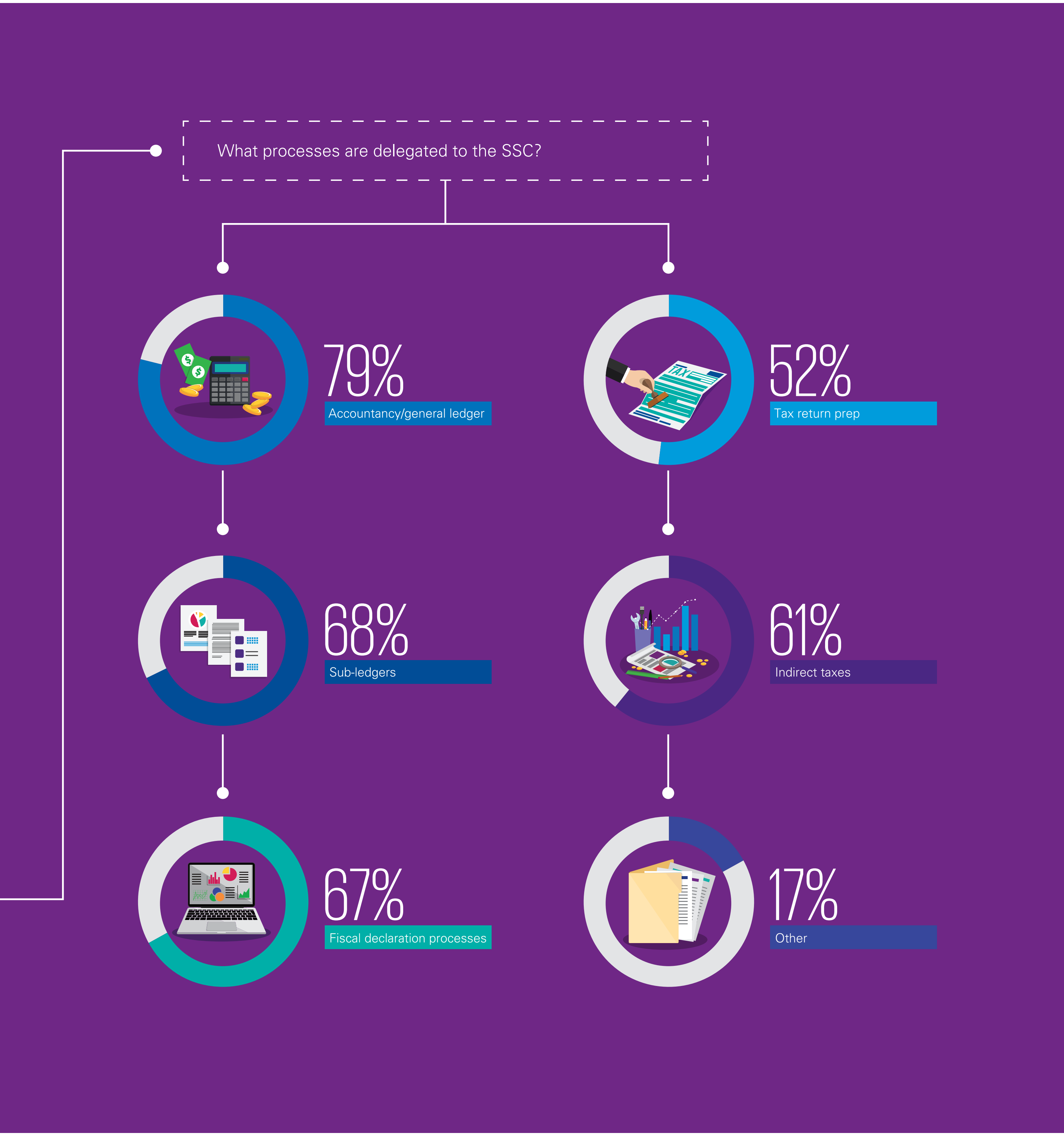
Does your tax department use an SSC to handle any part of its function?



If so, would you say that utilization of the SSC has increased, decreased or stayed the same in the past 2 years?



Source: 2019 Tax Benchmarking Survey, KPMG International.


What processes are delegated to the SSC?
79%
Accountancy/general ledger
52%
Tax return prep
68%
Sub-ledgers
61%
Indirect taxes
67%
Fiscal declaration processes
17%
Other
TAX

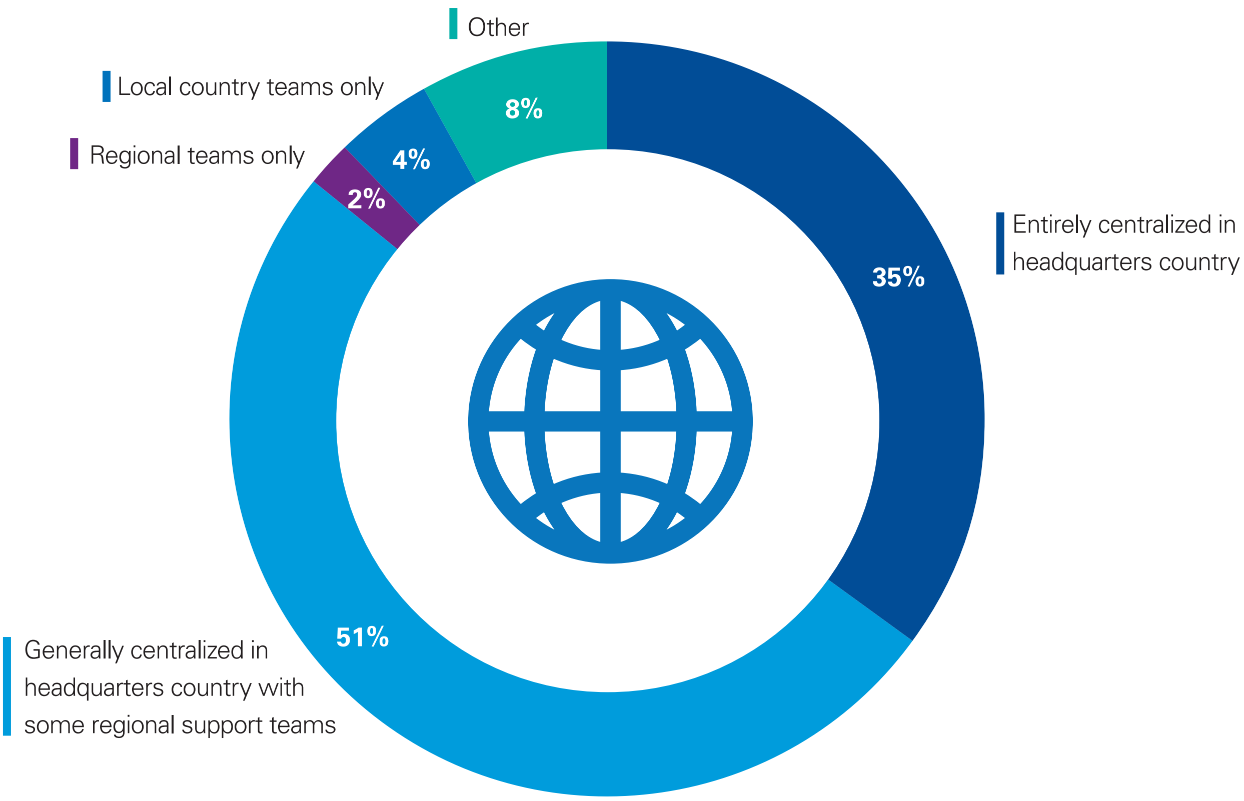
Structure of the transfer pricing function

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 now that many countries have implemented 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). With tax authorities worldwide now engaged in automatic exchange of tax information, centralizing transfer pricing activities may facilitate better compliance globally with country-by-country reporting and master file/local file documentation requirements.

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 6 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 transfer pricing country-by-country tax reporting software in the next 5 years.

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

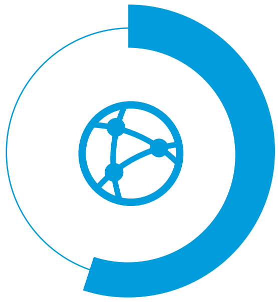


Source: 2019 Tax Benchmarking Survey, KPMG International.

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

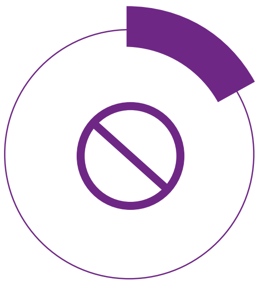
72%

Yes, for domestic entities



55%

Yes, for foreign entities



17%

No, for neither domestic nor foreign entities

Source: 2019 Tax Benchmarking Survey, KPMG International.

Key takeaways:

- Among Europe-based companies, most tax functions still fall within the finance function, although a significant proportion are independent. Only 8 percent of heads of tax report to the CEO directly.
- Many companies with headquarters in Europe 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 arising from new transfer pricing requirements developed 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 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 Europe-based 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 in Europe 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 60 percent of respondent companies have a documented tax strategy or overarching tax policy document covering tax risks. Of these companies, almost 60 percent 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. group tax rate.

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 limited tax information, and another 15 percent do so publicly. About 40 percent 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 some areas that could bear equivalent tax risk, such as personnel secondments, changes in information technology (IT) structures and product launches.

For any of these matters, involving the tax department is usually optional. Documented guidance requires (legally binding) involvement of the tax department in only 32 percent of respondent companies.

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

Source: 2019 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 & Legal
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?

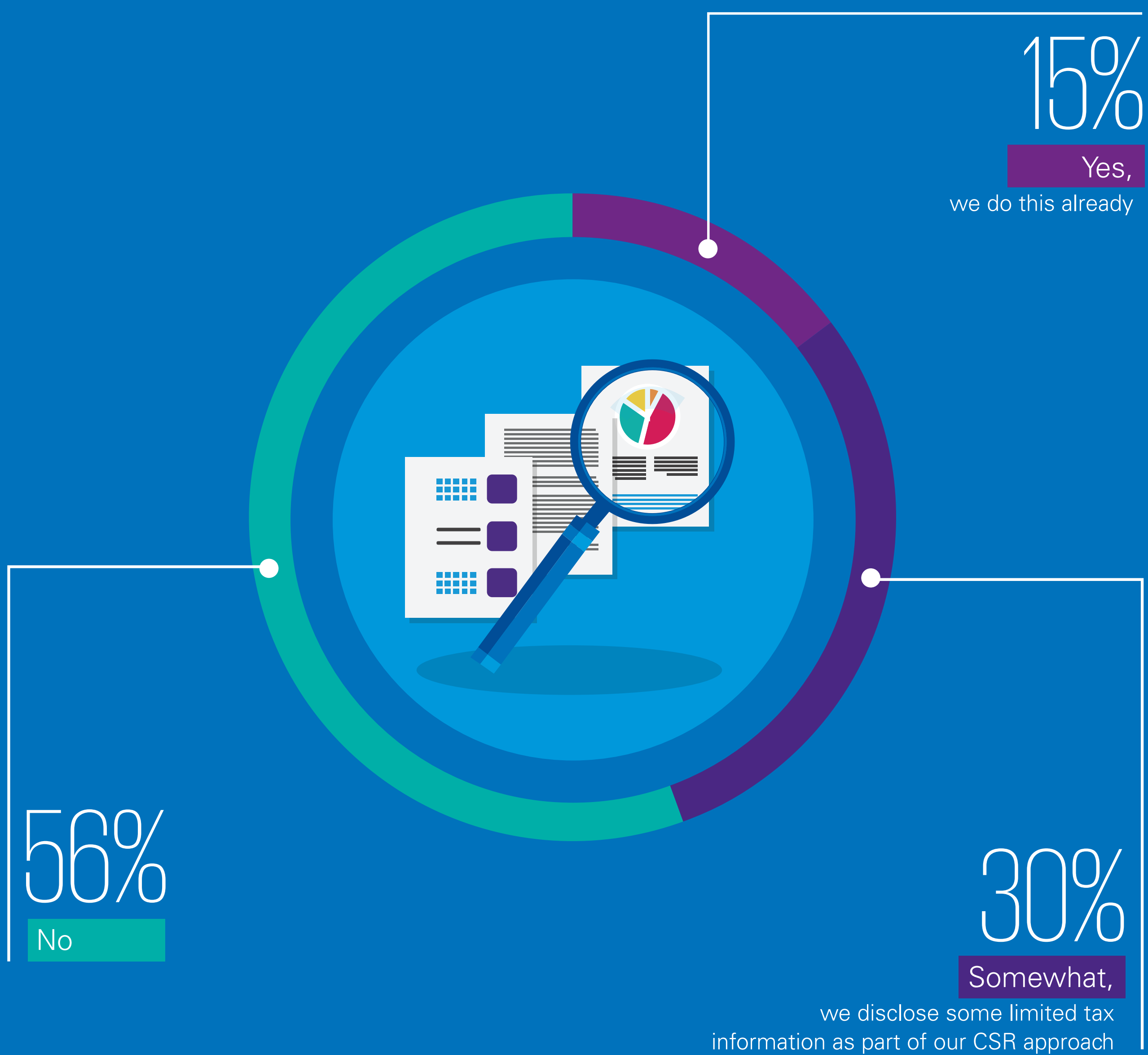
21% Yes, we have a tax code of conduct and it is publicly available

45% Yes, we have a tax code of conduct for internal use

34% No, we do not have a formal tax code of conduct

Source: 2019 Tax Benchmarking Survey, KPMG International.

Does your organization currently disclose your tax information publicly (e.g. as part of your CSR approach)?

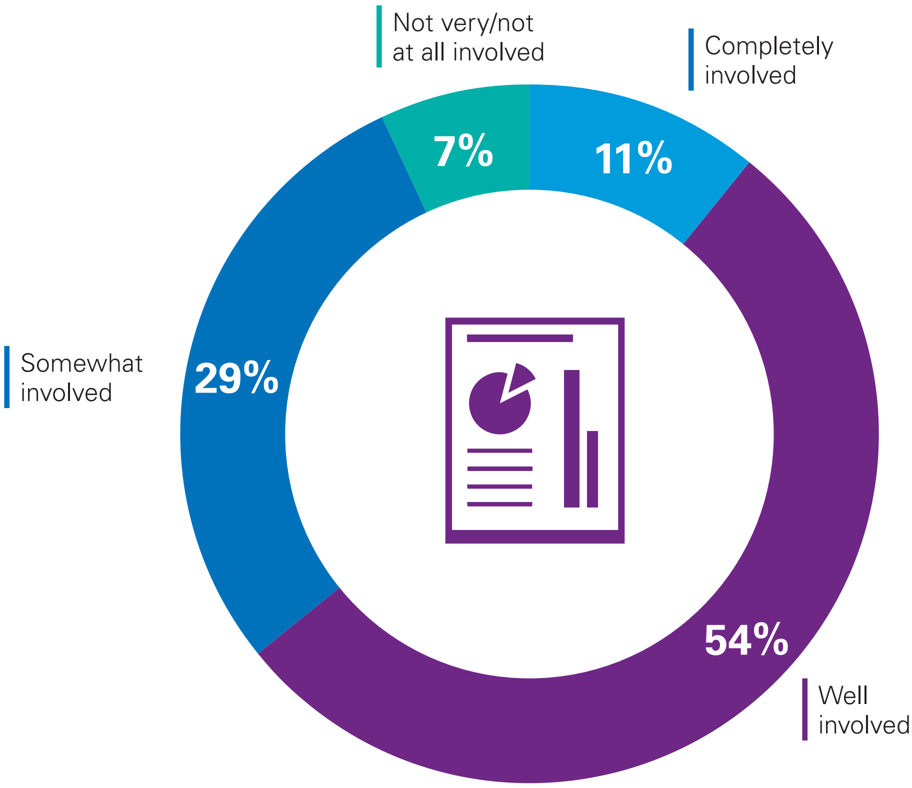


Source: 2019 Tax Benchmarking Survey, KPMG International.

In which of the following areas does the tax strategy or overarching governance policy document instruct other organization entities to involve the tax department?

Source: 2019 Tax Benchmarking Survey, KPMG International.

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



Source: 2019 Tax Benchmarking Survey, KPMG International.

A large majority of tax departments are contributing to operational business planning/business strategy, with 11 percent completely involved. Two-thirds of respondents say this involvement has increased in the past 2 years.

Key takeaways:

— Many companies based in Europe 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, over 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:

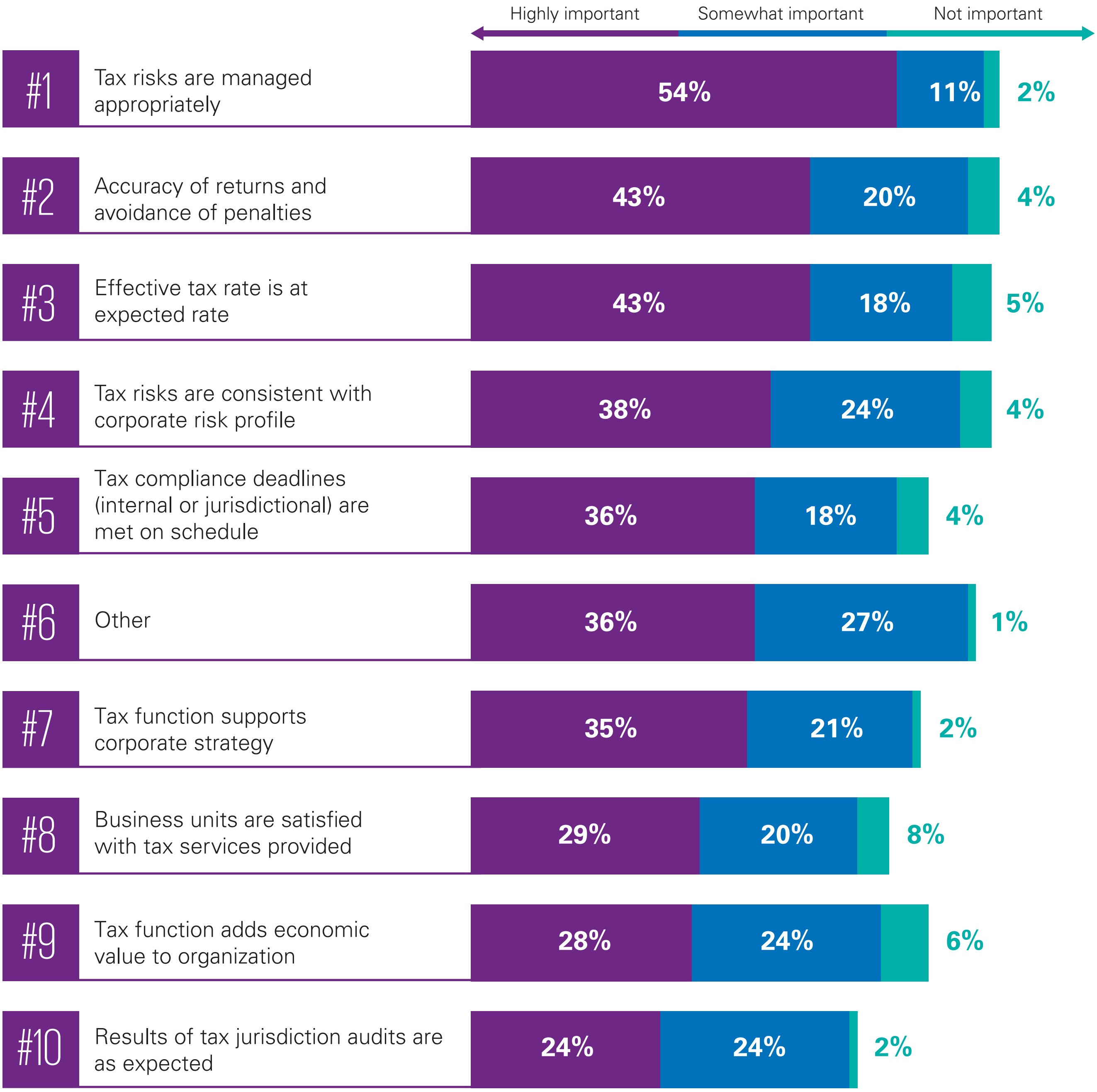
1. appropriate tax risk management (54%)
2. accuracy of returns and avoidance of penalties (43%)
3. effective tax rate is at expected rate (43%)
4. tax risks consistent with corporate risk profile (38%)
5. tax compliance deadlines (internal and jurisdictional) are met on schedule (36%).

These responses appear to be in line with respondents' priorities within their tax strategy's scope. Traditional tax department metrics — cash tax savings/management and effective tax rate — were ranked highly by two-thirds of respondents, but four of the top five metrics are primarily risk- and compliance-oriented. The rankings for adding value, supporting corporate strategy and business unit satisfaction suggest some 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 from companies based in Europe suggest risk management and compliance management are considered as the most important measures of tax department performance.
- — Some attention is also being paid to measuring how tax functions interact with the business and add strategic value.

Respondents ranked how important the following performance metrics criteria are to management (on average; in ranked order of importance):



Note: Totals might not add up to 100% due to rounding.
Source: 2019 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 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. 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, for Europe-based companies, 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 exceptions of country-by-country and transfer pricing software, however, companies may be missing out on opportunities to drive 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

One-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-nine percent of respondents expect their use of co-source resources from tax providers and finance SSCs to increase moderately over current usage. Almost as many respondents plan to increase their use of centers of excellence for key functions such as transfer pricing and transactions.

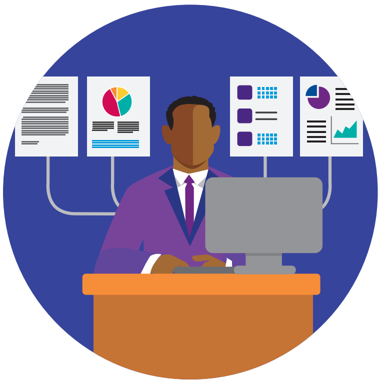
A minority of companies expect to increase their use of virtual work environments to source their global tax departments remotely or their use of offshore resources to take advantage of wage arbitrage. Relatively few companies plan to decrease their use of any of these sourcing options.

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

Standardize processes

Tightly connect provision and compliance process

Paperless environment



Consult with business or operation units

Formalize risk management

> **"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 so they can 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?

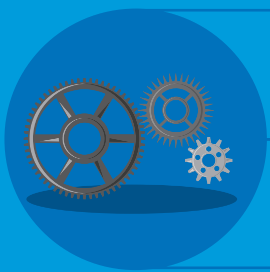
Total tax head count

33% Stay the same

58% Increase

9% Decrease

Use of co-source resources from tax providers



45% Stay the same

49% Increase

7% Decrease

Use of offshore resources to take advantage of wage arbitrage

71% Stay the same

26% Increase

4% Decrease

Use of center of excellence for key functions

(e.g. transfer pricing, transactions)

57% Stay the same

43% Increase

0% Decrease

Use of finance SSCs within your organization

45% Stay the same

52% Increase

4% Decrease

Reliance on a global tax department resource model

(e.g. virtual work environment that permits use of resources in remote locations not motivated by wage arbitrage)

59% Stay the same

40% Increase

1% Decrease

Note: Totals might not add up to 100% due to rounding.
Source: 2019 Tax Benchmarking Survey, KPMG International.

Tax technology

Companies based in Europe may be missing out on opportunities to drive efficiencies by increasing their use of tax-related software. Document management systems are currently the most commonly used tax software. Nineteen percent of companies that now use it plan to change their current software, while 21 percent of other companies plan to acquire document management systems in the next 5 years.

Compliance software, off-the-shelf provision systems and workflow tools are the next most commonly used software. 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 or global trade.

Two types of tax software that are expected to see significantly more use are software for country-by-country reporting and transfer pricing.

Thirty percent of companies use software for country-by-country reporting now, and 38 percent plan to acquire it in the next 5 years. Similarly, over a quarter of companies now use transfer pricing software, and over a third plan to acquire a tool within 5 years.

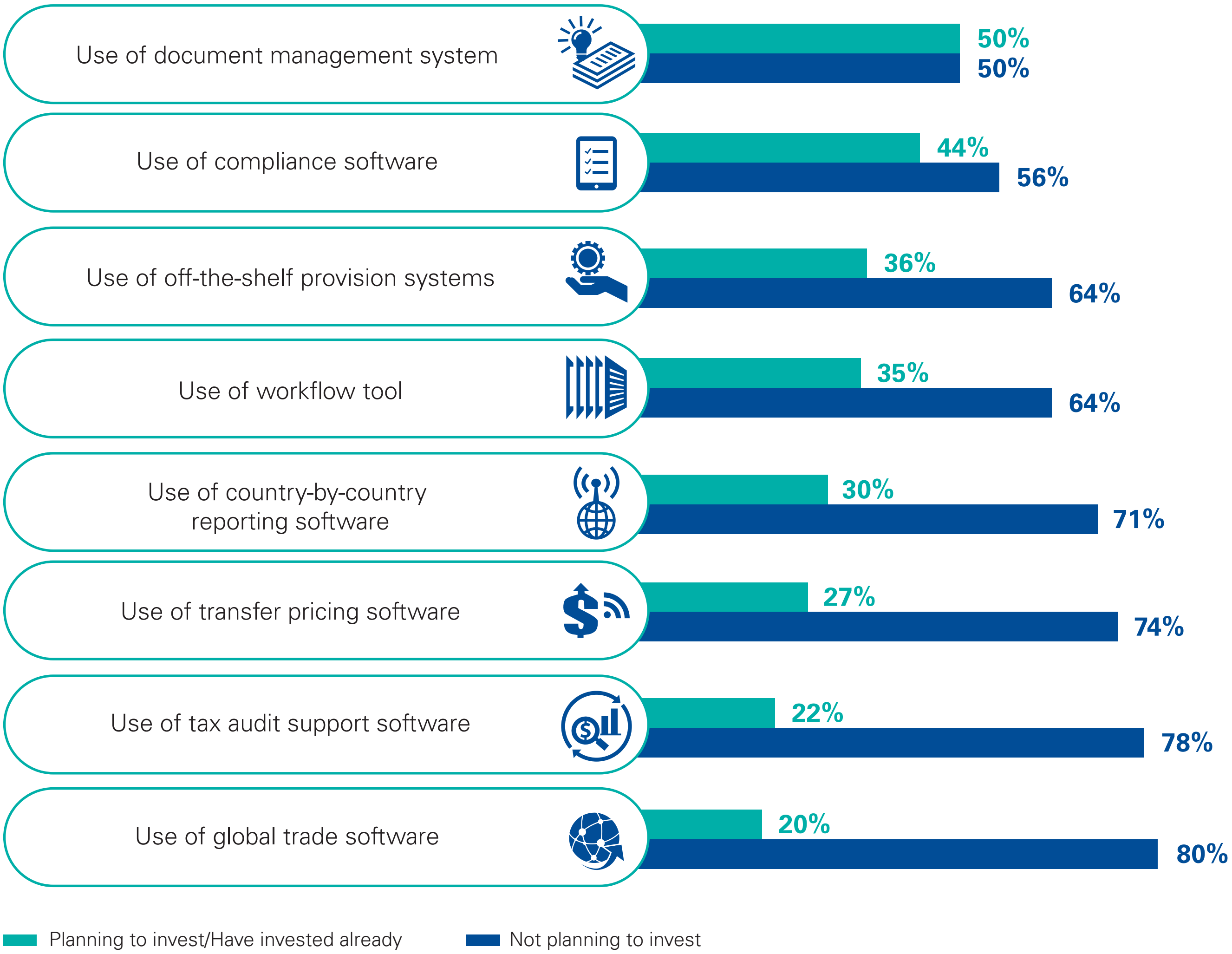
In terms of satisfaction with their companies' ERP systems in providing necessary tax data, one in five companies are ambivalent. Only 17 percent of respondents are satisfied with their current ERP systems.

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. understanding of tax data needs by IT resources
3. investment in tax-specific technologies
4. use of consolidation system data for tax purposes
5. use of tax data warehouse
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."**
>
> **Brad Brown**
> **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: 2019 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

72% Increase

27% Stay the same

1% Decrease

Use of consolidation system data for tax purposes

63% Increase

36% Stay the same

1% Decrease

Understanding of tax data needs by IT resources

64% Increase

35% Stay the same

1% Decrease

Investment in tax-specific technologies

64% Increase

35% Stay the same

1% Decrease

Note: Totals might not add up to 100% due to rounding.
Source: 2019 Tax Benchmarking Survey, KPMG International.

Tax sensitization of G/L and other accounts

51% Increase

49% Stay the same

1% Decrease

Tax sensitization of business forecasting systems

51% Increase

48% Stay the same

1% Decrease

Use of tax data warehouse

55% Increase

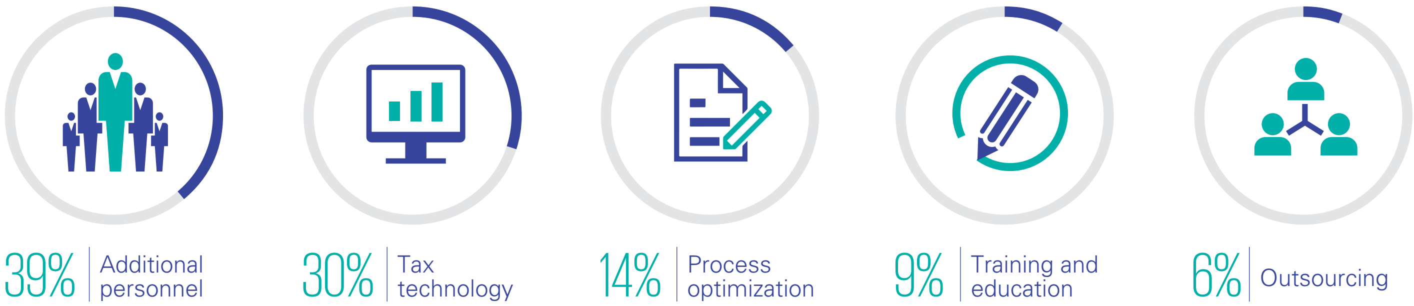
44% Stay the same

1% Decrease

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

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

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



Note: Totals might not add up to 100% due to rounding.
Source: 2019 Tax Benchmarking Survey, KPMG International.

Key takeaways:

— The trend toward increasing centralization of tax departments will continue for Europe-based companies, 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.

— Document management systems are currently the most commonly used tax software, and almost 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 and transfer pricing software in the next 5 years.

— Fewer than one in five leaders of Europe-based companies have 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 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.

Global Tax Department Benchmarking Survey

www.kpmg.com/taxbenchmarking

The Global Responsible Tax Project

www.kpmg.com/responsibletax

Future of Tax

www.kpmg.com/futureoftax

Future of Tax — Podcasts

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