



Podcast transcript

A focus on tax department evolution in Brazil and Mexico

Podcast with Jorge Caballero, Partner, KPMG in Mexico, and Vinicius Goncalves, Partner, Head of Tax, KPMG in Brazil

Musical intro

Announcer:

Hello and welcome to another episode of the KPMG podcast series for tax leaders. For today's episode, I spoke to Jorge Caballero, Partner and Head of Tax & Legal, KPMG in Mexico, and Vinicius Goncalves, Partner, Head of Tax, KPMG in Brazil. Jorge and Vinicius thanks for taking the time to join me today.

Jorge:

Thank you, thank you for having us here.

Vinicius:

Thank you, it's our pleasure.

Announcer:

As you know, over the course of these podcasts, we've been looking at how the 3 key themes: geopolitics, digitalization and changing business models are shifting the daily lives of tax leaders and their teams.

Based on your experience, which of these areas would you say is most prevalent in Mexico and Brazil?

Jorge:

While in the case of Mexico, I would say that geopolitics is the most relevant matter right now for CTO's, or Chief Tax Officers, in Mexico, due to the constant tax reforms that we had, not only in the country but in the region. Maybe a lot of multilatinas investing, or Mexican multilatinas investing abroad Mexico, have been facing all these challenges regarding the geopolitics changes, there's constant regulation changes, for example. And in second point I would say the digitalization, the tax authorities are well ahead of the taxpayers, I would say. In Mexico, we have more than 5 years in which the, all the accounting is now in electronic format and the tax authorities had a lot of information from the taxpayers. And now the challenge here is to try to close this gap and try to be more proactive regarding the, how you use this data, how do you use this information in order to be prepared for any tax audit from the from the authorities.

Announcer:

Vinicius is that consistent with what you're seeing in Brazil or is there another area of focus that's more prominent?

Vinicius:

Definitely geopolitics is the first one, you know, I think Brazil, Mexico, the whole Latin America is known for, you know, ever changing legislation within regulations. So this is definitely something CTO's needs/should be paying attention to. I would say that for Brazil specifically, maybe the changing of business models right now might be a little bit more important than digitalization because, the Brazil tax authorities started with the digitalization process way behind, way back in the years, and nowadays, most of the companies are already you know prepared for that. Not that this is not important but I would say geopolitics, changing of business models, which is a little bit connected with geopolitics if you think you know new ways of taxing those new business models in digitization.

Announcer:

So speaking about tax department benchmarking, we've asked tax leaders how senior executives rate their department performance. Whereas in the past we might have expected an effective tax rate to be an indicator, our survey shows this is no longer the case. In Latin America in fact, the top measures of performance was cited as follows: at number one was the accuracy of returns and avoidance of penalties. Number two was the adherence to compliance deadlines on schedule, and number three was that tax risks were managed appropriately.

For you both, is this consistent with what you'd expect tax leaders to prioritize, or what are you hearing from tax leaders in your region?

Vinicius:

Yeah, it is, it is. Actually you know, Latin American countries in general, they are highly focused in compliance. So generally speaking, it's not a surprise for me that, you know, the CTO's are saying that, you know avoidance, compliance and avoidance of penalties, deadlines and everything is a top priority, because penalty in Latin America in general very, very high. In Brazil for

example, they may, they may get over 150 percent of the tax due. So you don't want to, you know, be wrong on your returns. You need to be sure that at least you are doing your, you know, basic job well done, so filing the returns timely, filing the returns you know with accurate information. This is really top priority. And then you are going to think a little bit about planning you know, but it's not a surprise for me.

Announcer:

And Jorge what about in Mexico would you say it's the same?

Jorge:

Yeah, I would agree 100 percent with Vinicius, in the case of Mexico and the risk management regarding taxes it's the one priority for the CTOs and CFO's. Within the region, I would say the same since in case you miss a correct determination of the taxes, you could end up paying more than 100 percent on fines or surcharges and interest etc. So right now, even though they are more reactive, I would say the risk management and tax compliance is there today and the near future of tax department's, the, the, the focus of them, I would say is, is in terms of risk management. In terms of digitization, I would say that we are starting to see a certain investment through the, through the region as well, in, in the case of our, of our clients, and not only technology but also for example, looking at other ways to comply with taxes for example, centralization of services, how can we be more let's say efficient, regarding costs, regarding hours and regarding a human also resources and within the region that would be the, the second point.

Announcer:

Jorge clearly, you work with a lot of clients. When you consider those tax department's that are doing especially well, what is it that you see them doing, and what do you think other tax leaders can learn from them?

Jorge:

Yeah I, I would say that a breaking point in the tax departments right now is to give a central position to the CTO's and to the CFO's, and not being seen them as, you know, a support team for the companies, but to be actually part of the leadership team and part of the board, board if you may. Actually what we have been seeing and actually giving advice to our clients is actually to get this type of position, the CTOs and CFOs inside the strategic planning of the companies and not just as reactive as in the past, no. And I believe that this is really most related to what we have been discussing, that in order to be more efficient in risk management regarding taxes, the best way to do it is at the very moment of getting an idea, getting an strategic plan and, and putting that into the implementation process for the CTO and all the tax department to be involved in that. If not, it will be very high cost, I would say because you, you have to come and see what the leadership decided to do and then try to, you know, reassess what was missing regarding tax compliance.

Announcer:

And Vinicius, what about your experiences with clients. What are they doing well and what can we learn from them?

Vinicius:

Yeah, if you, if you will look for the, for the issues specifically to Brazil I think, you know, the, the tax directors and CTO's, they, they have some, some stages that they, they needed to go through. The first one was, you know, I need to be compliant in the tax authorities eyes and in the digital world, so I need to be prepared to get there and that required a lot of, you know, human resources and, you know, a lot of head counts being added to the tax departments to comply with those new requirements and, and regulations. And now, what is going on is that CTO's needed to be creative on how best to use that people. I think the best CTO's in the market, they are looking now and saying, "yeah we are prepared, we have all this technology for the compliance part of the work, but we have all this data, and what we can do with this data?". So they are trying to retrain and teach their people, you know, the value of the data and how to use the data to be more proactive, you know, to be more close to the business and, and try to bring, you know, proactive ideas or solutions and not just wait, you know, file the return, wait for, wait for the tax authorities but, you know, once we establish this whole technology base, we have all these people already working in the company - let's shift the roles, you know, instead of just doing the compliance let's see what we can do to have more automation or process and get those peoples, retrain those peoples to be more proactive, more closer to the business. This is what I see, you know, the best tax departments in Brazil, this is, this is the direction they are going.

Announcer:

Jorge, what do you think is the most important thing that tax leaders can be thinking about over the next 5 years when it comes to evolving their department for the future of tax, and the challenges and opportunities you think they'll face?

Jorge:

Yeah, for sure, I, I recall discussing this like 5 years ago in which we were saying, OK technology will be here someday and how this will disrupt not our business, but the business of our, of our clients and not specifically the tax department. I would say that today and the following 5 years, I would say that we have to live with technology. Technology has been a disruption force within the tax department and as Vinicius was saying, what it is really important is not to confuse that "OK, having the investment in technology would mean that I have to decrease my, my human resources". It's not that, it's actually replacing all the mechanic, let's say task, that the humans don't want to do and actually replace it by a robot if you may, by technology and, letting and freeing up the time for your people, for your talent, in order to do human things. To analyze the data, to actually be more proactive and to say, "OK now that I have all this free time, I, I can be able to put what I, let's say, studied in the school, that I, what I have been studying all these years, and put a value added to all this data. Not just being reactive but actually, to, to be proactive in

this tax department. I would say that in 5 years I would like to, to see the technology and the humans actually working very closely, very together, and not being afraid humans from technology, you know, to, to actually realize that it's an ally for, for the tax department and the, the, the, the disruption is here and we have to take the, the bull.

Announcer:

And Vinicius through the course of your career, have you seen the role of the tax leader change? Are you still excited about the challenges and opportunities?

Vinicius:

Yes, definitely. Even more excited actually. When I started my career the, the tax world was completely different than what we see now. At that time, it was enough to be, you know, a good technical tax guy, you know. If you, you knew deeply the tax legislation you were fine, you know, you, you would thrive in this career. Not anymore. You know, I usually say that, you know, tax is no longer just tax. It is not enough just to know deeply the legislation to be a really good technical guy, of course that, that is important to know, that, that is the basis of our profession but that's not enough anymore. You know, we needed to be really much more open to new skills, to new capabilities, to new technologies, we, we needed to relearn how to use these technologies, how, how to, you know, redesign our day-to-day lives. So I'm very excited about that, you know. I think, I think you know, if anyone that can, can join the tax profession now will have, you know, certainly very good opportunities to work with different kinds of subjects, not only, you know, reading the legislation and regulations and talk to tax authorities, you know. It's much more than that.

Announcer:

And Jorge would, you add anything?

Jorge:

I would say that also the, the new generations, the, the new talent that is in KPMG and in the tax departments within our clients, are looking for that, looking for that change of pace, I would say, and, and right now is the perfect momentum, I would say for everybody to give a value added to the organizations is not only as in the past, the, the Partner, what the Partner says, and what the Partner directs to, to be going. But now the innovation comes from anywhere within the organization. It's not only from up to down, but it's now down to up or side-by-side. I believe that this is, this is actually a, a change in, a very important change in our lives and for also listening KPMG, this is a good way to continue being the clear choice for our people as well.

Announcer:

Jorge and Vinicius thanks again for taking the time to join us. It's been really interesting to hear your insights.

Jorge:

Thank you for having me here.

Vinicius:

Thank you for the invite.

Announcer:

Join us again next time and please, email us with any questions you have about today's episode at tax@kpmg.com and we'd also love to hear from you with any suggestions you have for future episodes.

Thanks for listening.

Musical exit

