Benchmarking the indirect tax function in an era of rapid transformation

2021 Global VAT/GST Benchmarking Survey Report

KPMG International

kpmg.com/taxbenchmarking

Introduction

To provide valuable insights to companies around the world, KPMG's Global Indirect Tax practice is pleased to provide our 2021 Global VAT/GST Benchmarking Survey which outlines the results from the survey conducted during the first half of 2021.

This survey has been conducted on a regular basis to track the evolution of indirect tax benchmarks globally. KPMG's Global Indirect Tax practice expects that this, and subsequent surveys, will help companies enhance performance through greater visibility and the setting of more challenging indirect tax performance goals.

As only the things that get measured are likely to improve, it is critical that all multinational businesses seriously consider what the most appropriate qualitative and quantitative measures are for their business, put in place a program of continuous improvement and demonstrate over time how real business value can be generated through better indirect tax management.

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Survey methodology and demographics

From December 2020 through to the end of March 2021, KPMG conducted a survey of indirect tax professionals working for 233 corporates across a wide range of industry sectors around the world, of which over 50 percent have turnover in excess of USD5 billion.

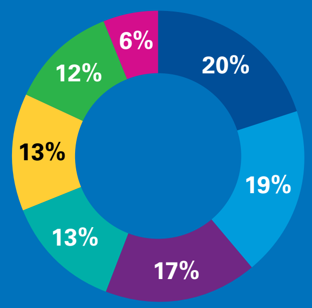
Since 2011, regular iterations of this survey have charted the evolution of indirect tax departments and identified operational benchmarks for high-performing tax teams. The results of past iterations of this survey are compared where appropriate to provide trend analysis.

Participant demographics

Based in or headquartered in over 40 jurisdictions.

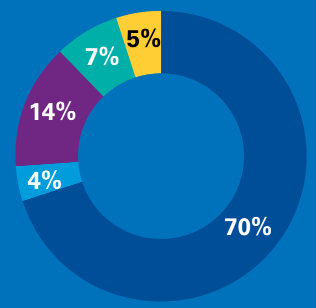
50% with turnover greater than USD 5 billion

What industry sector best captures what your business does?



- Banking, insurance and funds
- Technology, media, telecoms and entertainment
- Manufacturing (including automotive)
- Consumer markets and retail
- Healthcare and life sciences
- Other
- Energy and natural resources

Who does the Global Head of VAT/GST report to?



- Chief Tax Officer/ Head of Tax
- Chief Executive Officer
- Chief Financial Officer
- Head of Finance (Other than CFO)
- Other (please specify)

Do you have a Global Head of VAT/GST?

Survey highlights

Shrinking headcounts:

69 percent of all survey respondents have a global headcount of just 1–10 people in their indirect tax teams; in 2013 only 55 percent of respondents had a team of less than 10 people.

Managing significant throughput:

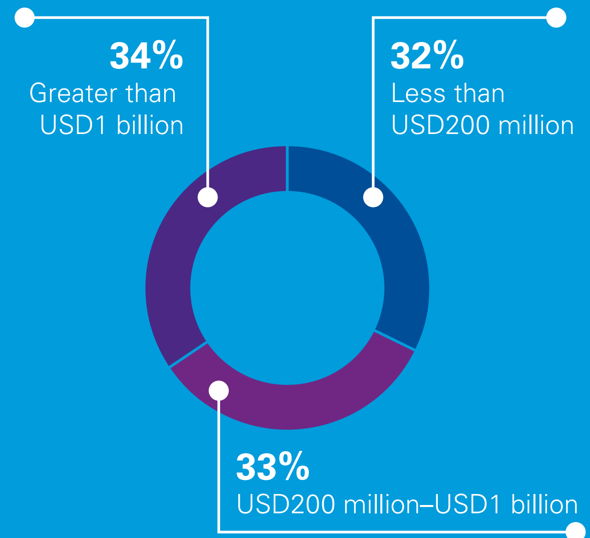
67 percent were managing ‘throughput’ (that is, the sum of output taxes paid and input taxes claimed) in excess of USD200 million annually with 32 percent managing throughput in excess of USD1 billion.

Managing multiple taxes:

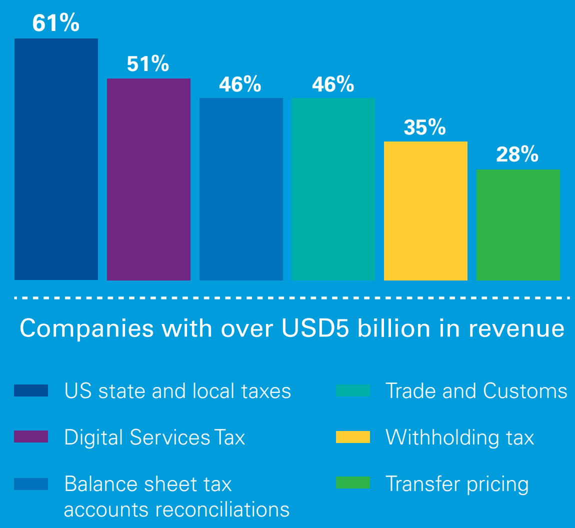
Globally, many of these indirect tax teams are also managing multiple forms of high profile taxes (in addition to VAT/GST), including, US state and local taxes (61 percent), digital services taxes (51 percent), balance sheet accounts & reconciliations (46 percent) and trade & customs (46 percent).

How many full-time employees (FTEs) are there in your global VAT/GST team?

What is the value of your Global VAT/GST under management?



What is the Global Head of VAT/GST accountable for?



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Survey findings

Indirect taxes, as the dominant form of transaction-based taxes around the world, increasingly relies on large volumes of data and technology tools for their effective management and collection. They require continued investment in enhanced processes, technology and highly trained people as the growth and spread of indirect taxes around the world is accompanied by increased data requirements (often near-time or real time) and regulation.

Over the past 5 years businesses have been required to comply with new rules requiring indirect taxes to be paid in over 80 countries around the world (including 'almost all' OECD countries)[1] on digital transactions in the location where their consumers are based. And over that same period, many countries have introduced new measures such as electronic invoicing, regulated tax invoicing systems, and real-time reporting obligations in which transaction level data must be provided to tax authorities.

Despite all of this, a key finding of KPMG's 2021 Global VAT/GST Benchmarking Report is that there is a sizeable gap between the resources required to meet these new expectations of tax authorities and the corresponding investments made by many large businesses in indirect tax functions to have them fit for purpose. Put simply, indirect tax functions are being expected to do 'more with less'.

Amidst the challenges, there are signs of optimism that indirect tax teams are paving the way for other parts of the tax function to transform. In particular, this year KPMG drilled down on the background of the headcount supporting indirect tax functions and found that 44 percent of the personnel in these functions do not have a conventional or traditional VAT or GST background, but rather, have a more diverse background in areas such as technology, finance and controls. This reflects the continued evolution of skillsets being required to effectively manage VAT/GST — as a transactional tax — and the shift in emphasis from being 'tax advisers' to 'tax managers'. This gives us confidence that what is happening in indirect taxes will pave the way for similar levels of diversification and enhanced transformation amongst the broader tax function in years to come.

What proportion of your FTE headcount are VAT/GST vs. non-tax specialists?

Source: 2021 KPMG Global VAT/GST Benchmarking Survey, KPMG International

[1] Source: OECD Consumption Tax Trends, 2020

Put simply, what the KPMG 2021 Global VAT/GST Benchmarking Report highlights is that there appears to be a chronic under-investment in the people required to manage these increasingly important taxes. Interestingly, the root cause of this appears to be a failure to adapt traditional tax function models for the needs of indirect taxes.

Limited tax control frameworks fit for purpose

Only 30 percent of survey respondents have a tax control framework dedicated to VAT/GST. While 48 percent of respondents do have a general tax control framework, our experience shows that general frameworks can be too high-level to effectively manage VAT/GST, which touches many parts of the finance process, and tend towards managing corporate taxes.

Sacrificing value creation

Nearly three quarters of a team's time (73 percent) is spent on managing compliance, dealing with tax audits and being a business partner. Little more than 10 percent of time is spent on creating value from effective indirect tax management. This suggests that value creation and effective business partnering is being sacrificed, likely due to resource constraints.

Insufficient performance measurement

Key performance indicators continue to be focused in areas designed to 'get it done' (such as timely and accurate filings, which was supported by 73 percent of survey respondents), rather than helping to mitigate cost, risk, or generating savings and delivering value to the business. Again, a likely symptom of resource constraints and consistent with the adage that 'whatever is not measured is not done'.

Do you have a Global VAT/GST Control Framework?

30% Yes | 22% No | 48% No, but we have a general Tax Control Framework

How much of your team's time is spent on the following activities?

What is your most important KPI?

- 73% — Timely and accurate return filings
- 9% — Feedback from the business
- 8% — Mitigation of penalties and interest
- 8% — Generation of VAT/GST savings

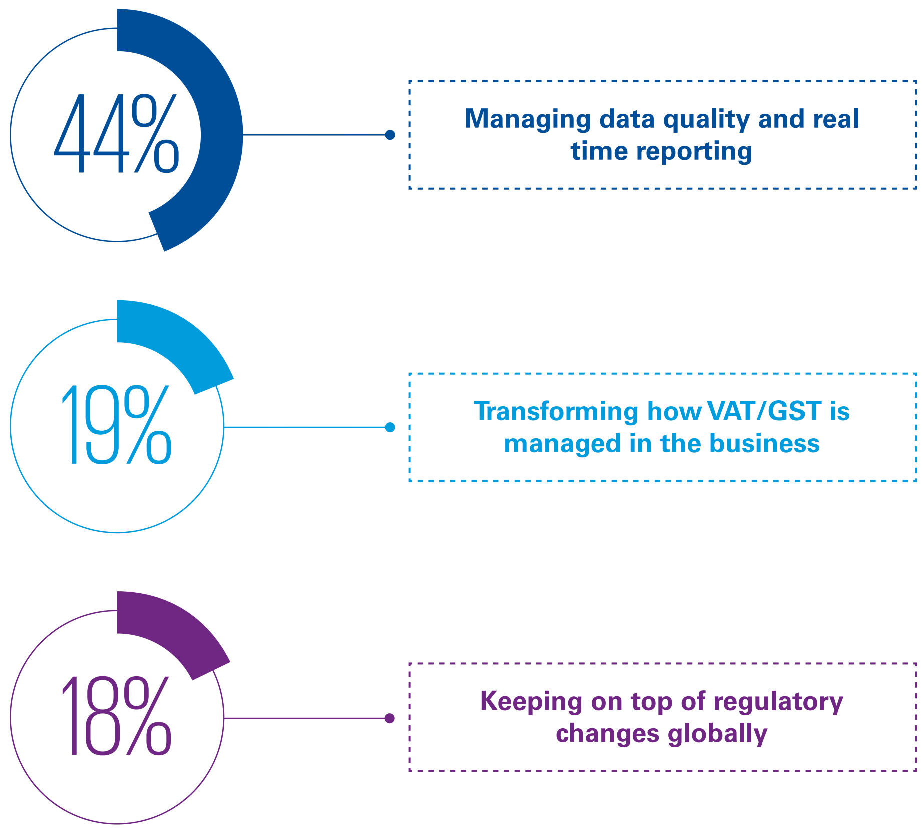
On the cusp of a new era

Crucially, there are signs that we are on the cusp of a new era. Take for example the following:

1. Data management is the new challenge

44 percent of survey respondents described their biggest challenge as being to manage data quality and real time reporting — a much more significant issue than transforming how VAT/GST is managed in the business (19 percent) which was the second highest scoring challenge. Indeed, transforming how VAT/GST is managed in the business and keeping on top of regulatory changes globally (the third highest scoring challenge — 18 percent) are all closely related to data management too. In KPMG's view, the growth and complexity in indirect tax reporting requirements, including real-time reporting and electronic invoicing, means that tax data management will likely be the defining challenge for tax managers over the course of this decade as real time = right the first time.

What is your biggest challenge for the future?

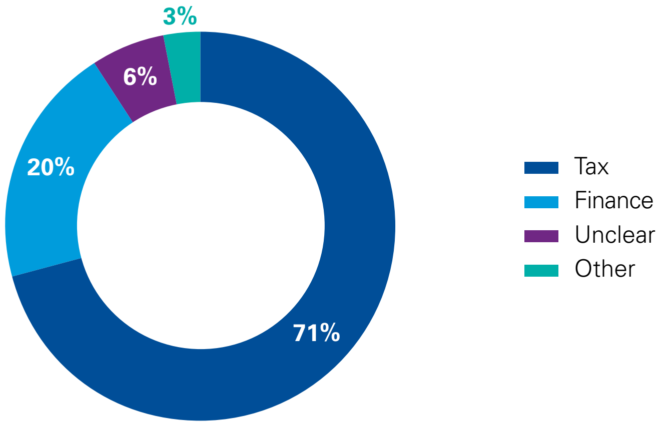


On the cusp of a new era

2. The tax function has greater accountability

71 percent of survey respondents indicated that ultimate accountability for indirect taxes in the business rests with the overall Tax function, up from 59 percent only 3 years ago and considerably higher than the 41 percent measured back in 2013. This reflects a shift to greater levels of control and ownership of indirect taxes within the broader Tax function in part to ensure greater connectivity with the other taxes it traditionally owns. Against this shift in accountability it is surprising that a little over a half of businesses (52 percent) still do not have a Global Head of VAT/GST and, alongside the absence of specific Tax Control Frameworks, must present something of a risk to its effective management.

Who has ultimate accountability for VAT/GST in your business?



On the cusp of a new era

3. The shift to centralization and outsourcing continues

32 percent of survey respondents described their predominantly indirect tax compliance model as being a centralized model using in-house resources, and a further 24 percent outsource their compliance returns to a third party provider. This is up from 17 percent and 10 percent respectively over a 3 year period. With data quality being the next audit battleground between taxpayers and tax authorities, and with evolving compliance delivery model likely to result in traditional VAT/GST returns being replaced with real time data transfers and pre-filled returns, the shift towards greater levels of centralization and outsourcing will likely only continue.

How is VAT/GST compliance managed in your business?

44% — **Prepared locally in-house**

32% — **Prepared centrally in-house**

24% — **Outsourced to a third-party provider**

Predictions for the future

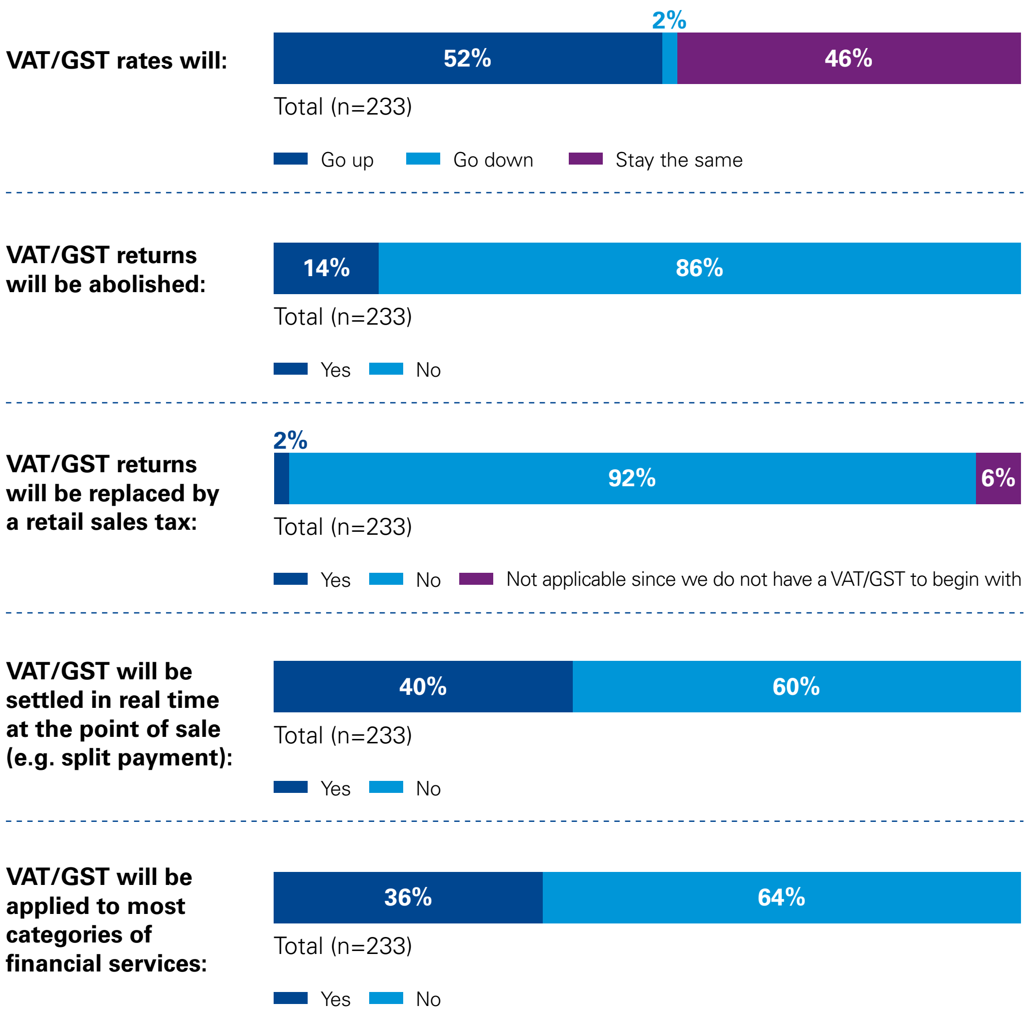
The survey respondents were divided on whether VAT rates would go up or down. Fifty-two percent thought rates would go up while 46 percent thought they would go down. While there has been a global trend over the years of tax authorities wanting to increase revenue from VAT/GST, the COVID-19 pandemic has shown just how many tax authorities are willing to reduce VAT/GST rates to boost the economy and support business.

Strikingly, there was far more consensus from the survey respondents about whether VAT/GST will be replaced by a retail sales tax — 92 percent thought this would not happen. We also saw that the vast majority of respondents still think VAT/GST returns are here to stay, with only 14 percent thinking VAT/GST returns would be abolished in the future. However, in our view, as indirect taxes slowly but surely become more digital, VAT/GST returns as we know them will cease to exist.

As a new method for collecting tax, 40 percent of survey respondents thought that VAT/GST will be settled in real time at the point of payment. This is something that has already been introduced in countries like Italy and Poland as a measure to eliminate VAT fraud. However, this has been very difficult to implement, so other tax authorities may be slow to follow their lead.

Finally, the future for financial services looks to be exempt. Only 36 percent of survey respondents believe tax authorities will apply VAT/GST to most financial services suggesting that true modernization remains someway off.

For each of the following predictions, do you believe the following will happen in your jurisdiction within the next 3 years:



Conclusion

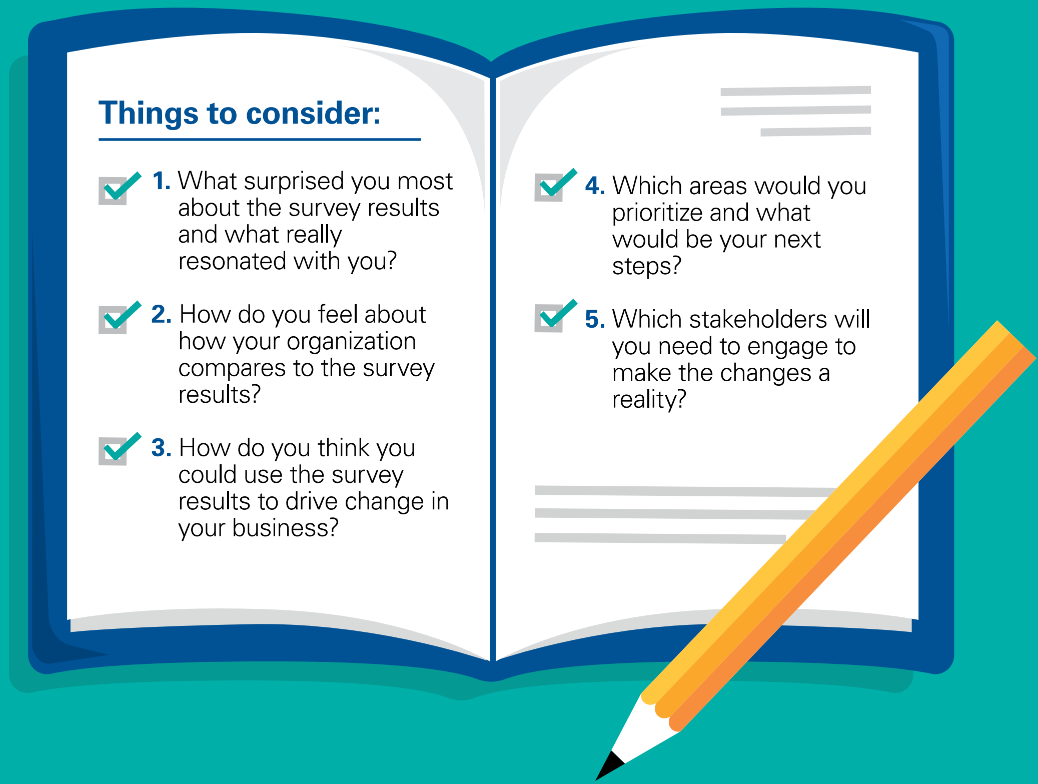
With a greater focus and potential for expansion of transaction and turnover based taxes as we emerge from the COVID-19 pandemic, and with finance function transformation and centralization in full swing, the expectation is that indirect tax functions will play a critical role in broader tax function transformation, including:

— leading the way in adapting their teams to embrace technology experts, data scientists and the like;

— using centralized delivery models, leveraging technology tools and automation; and

— managing real-time data requirements across all taxes.

Key to success in this new era will be to ensure these changes are leveraged for the benefit of the whole tax function, the people and compliance sourcing models are fit for purpose, and that KPIs are aligned to create effective performance outcomes. Indirect tax professionals have shown their ability to manage complex and large data sets effectively, and to work with IT and other professionals, and these skills should be increasingly in demand in a post-pandemic highly digitalized world where tax authorities are seeking to collect revenues on a global basis more effectively and efficiently.



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Publication name: Benchmarking the indirect tax function in an era of rapid transformation
Publication number: 137451-G
Publication date: September 2021