

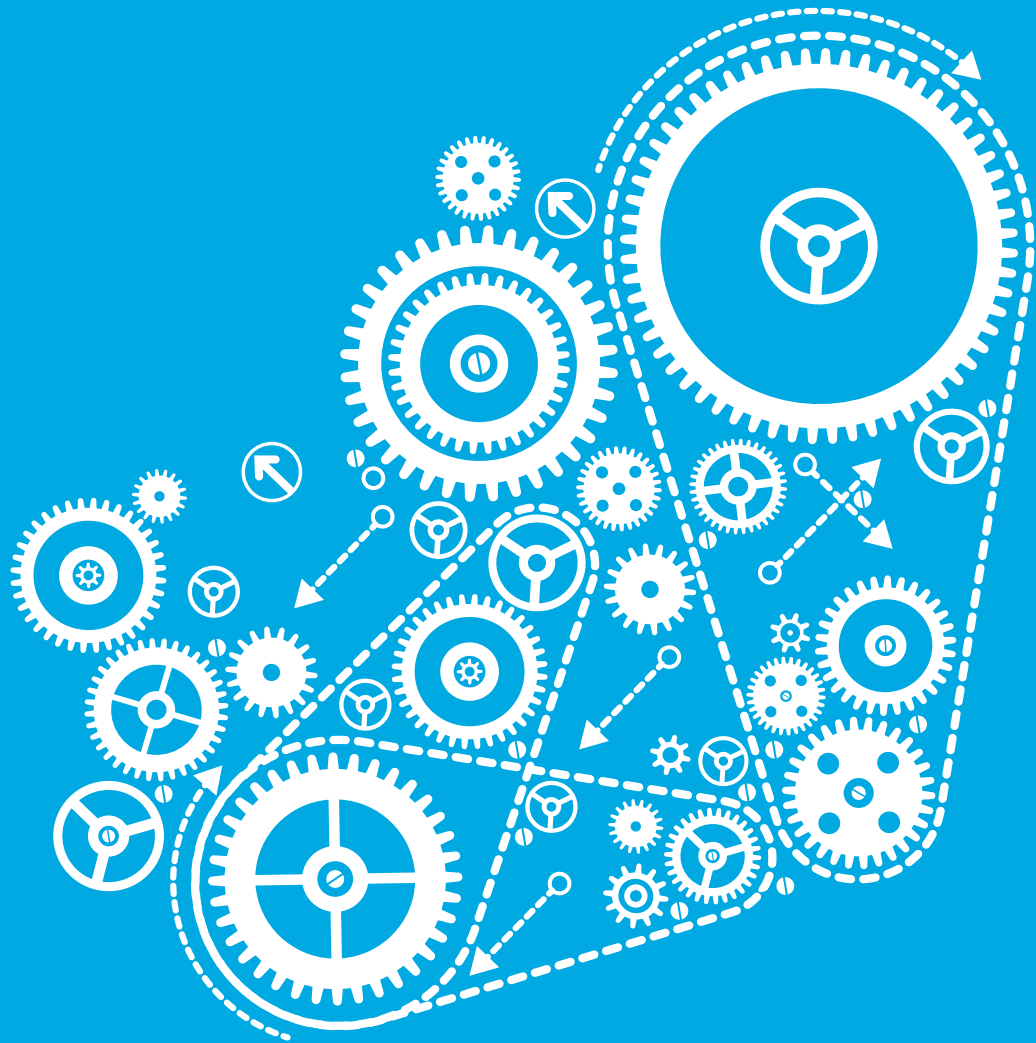


The management of tax Global research bulletin

January 2015



Setting the scene



Over the last five years, in response to changing global market dynamics and business needs, Deloitte has commissioned biennial market research with global tax decision makers from the largest multinational businesses.

Since 2010, three independent research studies into the management of tax have been conducted, culminating with completion of the most recent study in December 2014.

With over 1,000 organizations now surveyed, our body of findings provides objective market insight into the global management of tax.

Terms of reference

When considering the research findings, it is worth a reminder of some of the main definitions used consistently across all studies since 2010.

Global tax operating models:

- **Method 1** is a *decentralized* model where all work is undertaken locally with little global oversight.
- **Method 2** is a *centrally coordinated* model where work is often undertaken or delivered locally but is overseen and coordinated centrally.
- **Method 3** is a *centralized* model where most of the work is carried out, delivered and managed from one or more central locations.

Tax compliance and reporting processes

One of the main dynamics that led to our first research study in 2010 was an increasing focus from businesses on undertaking and managing tax compliance and reporting processes.

Our definition applies to the main compliance and reporting processes, encompassing the control, production and filing of **corporate income tax** (CIT) returns, **indirect tax** returns, local **statutory accounts** and local/global consolidated **tax provision**.

The story in brief

Global tax decision makers consistently rate quality and control of higher importance than other commercial drivers such as cost, added value and process efficiency.

Over time, our global market research has indicated some clear trends that we continue to see developing in our latest study.

Global tax decision makers consistently rate quality and control of higher importance than other commercial drivers such as cost, added value and process efficiency. When examined more qualitatively, this emphasis on quality and control is driven by a desire for better global governance and visibility from the centre, as well as concerns about the consistency of tax expertise and resourcing across all operating jurisdictions.

Global visibility and local knowledge are critical to effective tax risk management, which is cited as one of the main concerns for the global tax department. Oversight is seen as particularly important in the context of increased regulation combined with higher levels of public scrutiny.

Therefore, as multinationals seek to develop a more sophisticated approach to global tax management, we have seen a continued shift towards more centralized operating models. This has been accompanied by increasing use of global or regional outsourcing, especially in countries outside the HQ location. Often this is being used as a means of quickly improving quality through the delivery of consistent levels of local tax expertise across all global operations.

Perhaps more pertinent is the strategic use of outsourcing as a catalyst for wider improvement or even transformation.



Whilst many global tax decision makers continue to express a conceptual preference for in-house resourcing, there is a pragmatic recognition that in-house resource cannot be maintained in all locations and outsourcing is necessary to complement the in-house team. There is, however, a trend towards rationalising and consolidating the number of global suppliers and bundling services into globally outsourced contracts as a catalyst for developing a more centralized operating model.

In past studies, this movement has seen significant regional variations, with US and European headquartered multinationals more likely to operate centralized method 2 or 3 models. However, our latest study suggests that other regions are now accelerating towards more centralized models and greater use of outsourcing too.

Recent examination has also shown that centralization varies by process, with CIT and tax provision generally some way ahead of statutory accounts and indirect tax. Significantly, all of these trends correlate to increased levels of satisfaction amongst those operating more centralized models. That said, our most recent findings do suggest that satisfaction with current operating models is falling across the board and the desire for further improvement is strong.

In this sense, a forward focus on greater process efficiency seems to be growing as organizations look to achieve more consistent global processes and quicker, simpler delivery, often through better use of technology.

Notwithstanding the emphasis on quality and control, the search for added value has also consistently been cited as an area of importance for global tax decision makers, although successive surveys suggest this continues to be an aspiration often thwarted by more immediate operational pressures or the latest regulatory challenge.

A forward focus on greater process efficiency seems to be growing as organizations look to achieve more consistent global processes and quicker, simpler delivery, often through better use of technology



The current headlines

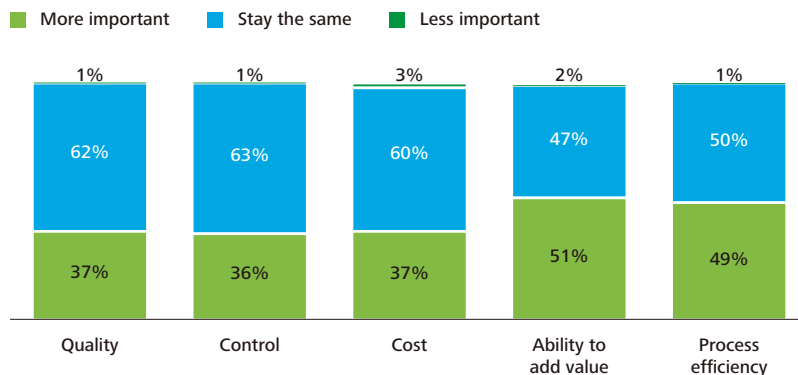
Commercial drivers of tax management

- The relative importance of 'quality' and 'control' has grown, with increasing concern over the scrutiny of tax from governments, the public and the media.
- Over the next 3 years though, around half of respondents say 'ability to add value' and 'process efficiency' will become more important.
- While satisfaction with any driver in a current model is higher amongst those who rate it of high importance, satisfaction with 'process efficiency' is comparatively low, even with those who consider it of high importance.
- However, respondents who are happy with process efficiency are far more likely to be satisfied overall with their operating model.

Global tax operating models

- 61% now have some form of centralized model (method 2 or 3) compared to 54% in 2012.
- Over half of multinationals operate centralized models for tax provision (66%) and CIT (59%) but less than half do so for statutory accounts (48%) and indirect tax (37%).
- The biggest regional shift is in AsiaPac with a dramatic move towards centralization: 64% now operate a central model compared to 26% in 2012.
- The future focus is expected to be on improving the current operating model: 29% expect to make changes within method over the next 3 years, a 16% increase on 2012.

Figure 1. Anticipated importance of drivers over next three years



Current importance of each driver (% high importance)

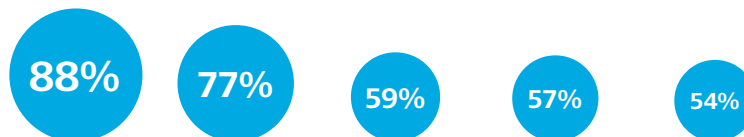
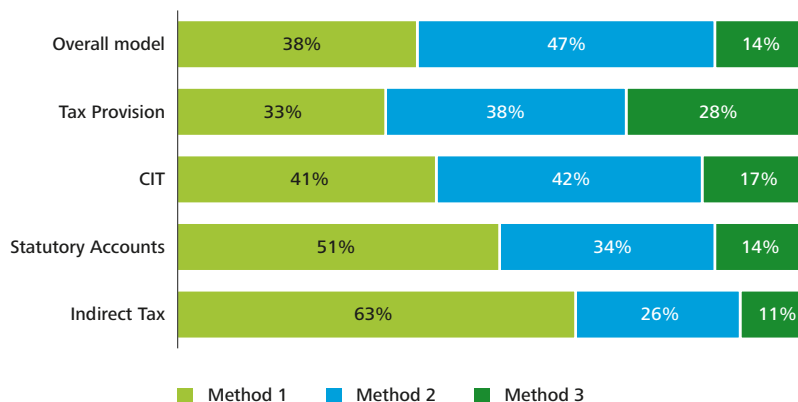


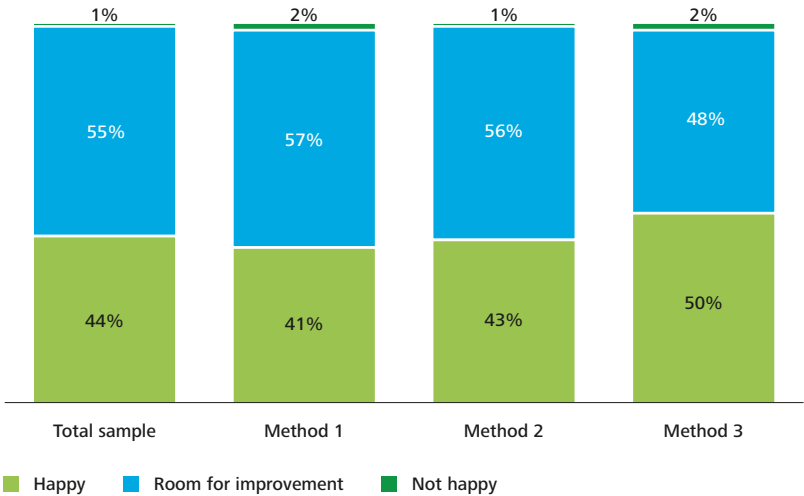
Figure 2. Current global tax operating model



Satisfaction levels

- There is a marked drop in overall satisfaction, as only 44% say they are happy with their current tax operating model, although the more centralized, the happier.
- Levels of satisfaction with the Indirect Tax process stand out as low, with only 16% saying their model works particularly well for this process in contrast to 47% saying CIT works particularly well.
- Those who feel that the Indirect Tax process does not perform well cite complexity and a lack of centralized strategy as reasons for this.

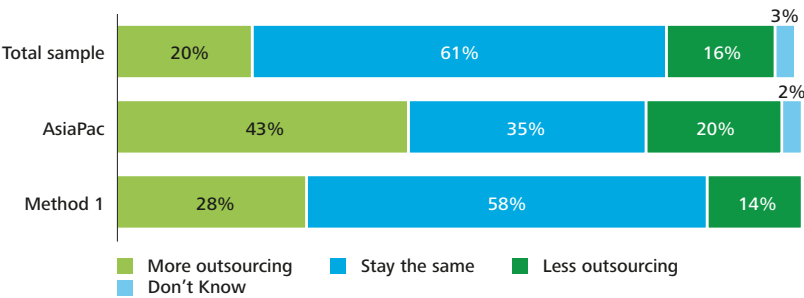
Figure 3. Satisfaction with current operating model



Resourcing

- The role of external providers is likely to remain largely consistent with only a 4% net increase in outsourcing expected over the next 3 years (20% expecting more outsourcing and 16% expecting less).
- AsiaPac headquartered multinationals again stand out with a 23% net increase in outsourcing expected, underlining that this is the most dynamic region in terms of changing operating models.
- A larger 14% net increase in outsourcing is expected amongst those currently operating method 1 models, supporting the trend towards transformational outsourcing.

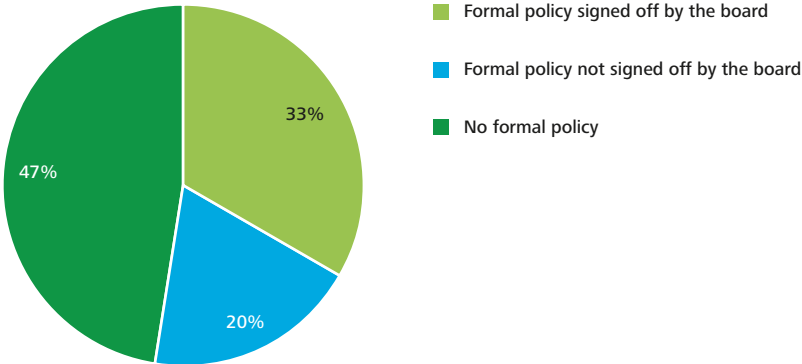
Figure 4. Outsourcing expectations in next 3 years



Tax governance

- Nearly half of organizations have no formal tax policy and only one third have a formal written policy signed off by the board.
- Only 43% of those with a formal tax policy are confident it is put into place across the business.
- Over a quarter admit to having no process in place for identifying, controlling or reporting tax risk.
- Overall, only 26% feel very confident they have the right approach to tax governance.

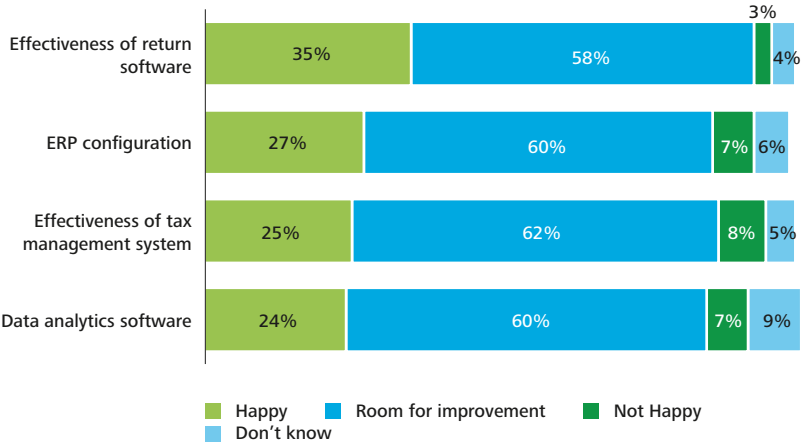
Figure 5. Formal written tax policy in place?



Tax technology

- 64% do not have a formal plan in place for their tax technology architecture and 41% have no one with overall responsibility for tax technology.
- Only 55% have a specific budget assigned for tax technology.
- Satisfaction with tax technology is low: most cite room for improvement in all areas.

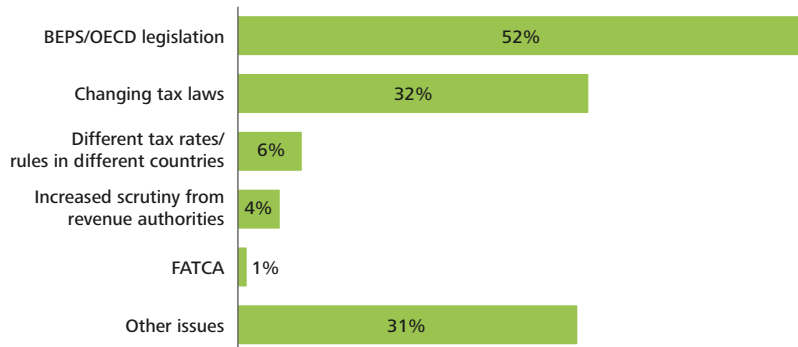
Figure 6. Satisfaction with current technology



Legislation

- 52% cite BEPS and OECD legislation as their biggest area of concern.
- 51% anticipate an increased compliance and reporting burden as a consequence.
- 40% remain unsure about whether EU Audit Rotation will require change to their supplier arrangements while 17% believe some change will be required and 9% have already made changes.

Figure 7. Areas of legislation causing most concern



Looking forward



Our research shows that while there has been much change over the last five years, more can be expected and the focus will shift to different areas.

Quality and control will remain the chief drivers for most, but process efficiency will grow in importance.

Indirect tax and statutory accounts production appear to be the processes for which global tax decision makers feel their current operating model is least effective, but satisfaction levels rise for those with more centralized delivery models. Looking forward, therefore, we can expect to see more focus on transformation of these processes.

The AsiaPac region is expected to be the most dynamic in terms of changing operating models, perhaps as organizations expand outside the region and look for new approaches to managing tax in unfamiliar jurisdictions.

More generally, it would seem that the focus in the coming years will rest on making improvements to organizations' existing operating models, rather than wholesale changes in method.

As well as looking for improvement in process efficiency, it would seem that examining global tax governance and tax technology architecture will be key requirements for many.

Looking at the wider context, anxiety and uncertainty about forthcoming legislative change is likely to make the imperative for improvement even greater.

Those organizations that feel more in control of and confident about their operating model (including resources, processes, technology and governance) feel that they will be better placed to deal with the impact of legislative change, closer regulatory scrutiny and an increased compliance burden.

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