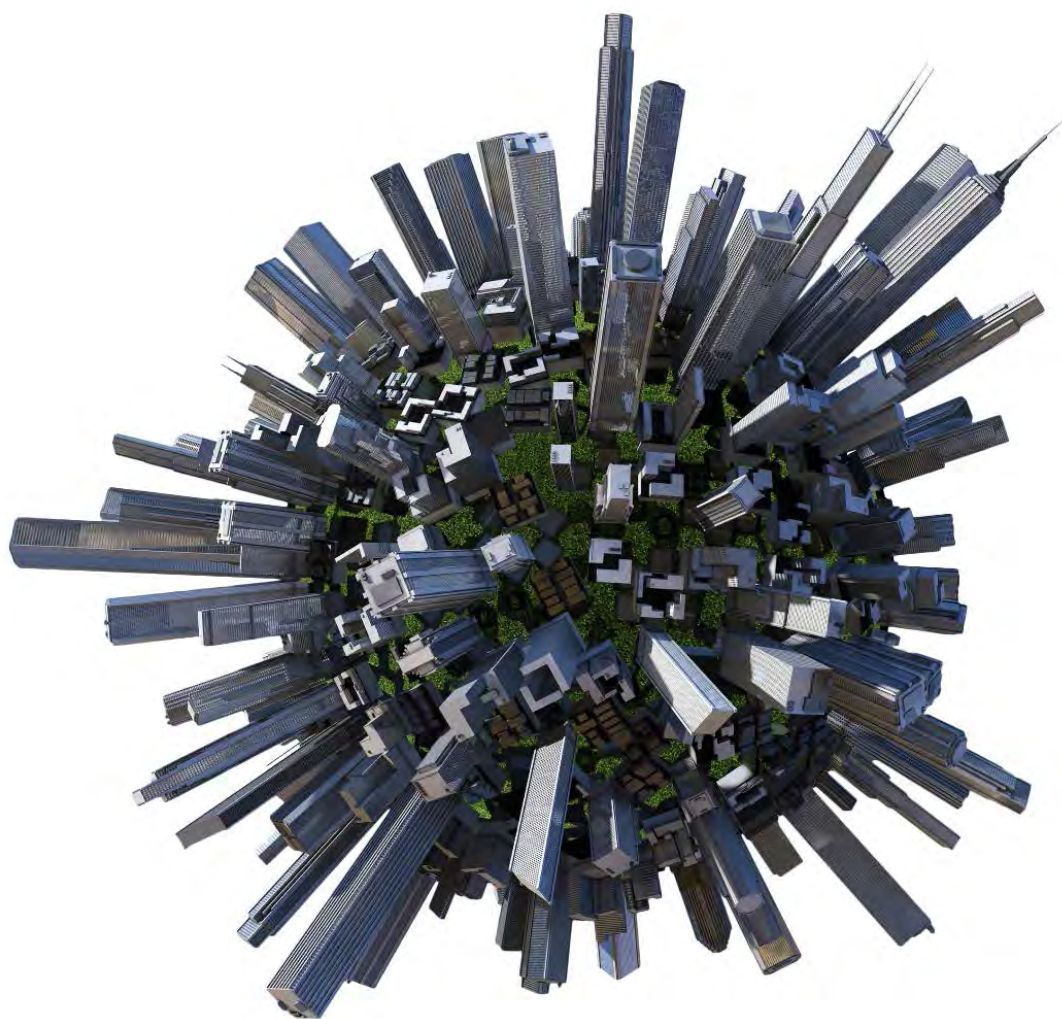


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Global Tax Management

Japan Research Report

Tax Management Consulting

Deloitte Tohmatsu Tax Co.

June 2017

Evolving insights



A study into the contrasting global tax management approaches between Japanese and foreign businesses.

This report brings together data from two separate studies. Since 2010, Deloitte has commissioned four independent global market research studies with tax decision makers, the most recent concluding in December 2016. The studies comprise over 1,200 interviews and collectively form a substantive and objective view of the global tax management landscape. During the same period similar studies have been conducted in amongst Japanese multinationals.

Drawing upon findings from the aforementioned studies, this report focuses on the global tax management approaches adopted by Japanese companies and how they compare to their foreign counterparts.

Scope of research

The global market research study reflects the known ‘universe’ of large multinationals across the world – defined as any business with annual revenue in excess of US \$200 million and operating in five or more countries – numbering almost 5,000 organizations. The data was gathered through interviews performed amongst a representative spread in terms of geography and industry; data from these studies presented as “global” and “Asia Pacific” does not include Japanese company data unless otherwise stated.

The Japan market research was conducted through web surveys conducted in 2012 and 2016/17. Participating companies broadly fit the criteria described above. The respondents comprised Tax Directors, Heads of Tax and equivalents.

Profile of Japanese respondents



Japanese businesses are apparently unhappy with their tax operations – but are they ready to change?

Since Deloitte's first global tax management research seven years ago, a consistent theme has been evident. Tax leaders in multinational businesses face a constantly changing landscape of increased regulation, globalization of markets and the commercial pressure "to do more with less".

There have been various business responses such as increased centralization, integration with other business operations and consolidation of resourcing models. Compared to foreign companies, these responses have been less evident amongst Japanese companies who have shown a degree of resistance to change.

A call for change

The rapidly changing global tax landscape has brought a new set of challenges for tax teams of multinational businesses. For example complying with OECD's BEPS requires globally coordinated actions as well as increased levels of disclosure to tax authorities. Our findings highlight a clear disparity between the level of coordination and centralization of tax activities between Japanese and foreign companies.

The studies also show a continued decline in satisfaction with tax operating models and few companies are actually satisfied with their current situation; this is particularly the case amongst Japanese companies. In both the global and Japan studies there is a correlation between low satisfaction and companies with decentralized tax operation models.

The current global tax landscape requires greater transparency from businesses and new stakeholders have emerged with an interest in tax. More than ever before, robust tax governance is key to withstanding additional scrutiny and managing tax related risks. Despite this, according to our studies, few Japanese companies have implemented effective tax governance and risk management controls, meaning that tax is managed on a reactive basis.

New approaches are necessary to address the increasing tax workload, especially for teams with limited staff resources and budget constraints. Although technology does not appear to be delivering the anticipated level of benefit, our data shows that Japanese companies are making less use of technology than foreign companies. Streamlining processes, reducing manual activities and deploying effective software automation could deliver much needed relief to tax teams of Japanese companies.



Change comes from within

In addition to challenges which come to light through changes in the external environment, there are also internal areas for improvement. For example, the proportion of Japanese businesses that feel their effective tax rate is too high is twice as high as those that are actually managing it. A number of Japanese companies consider it critical to track the status of overseas statutory obligations yet few are actually doing so. Two thirds of Japanese companies feel the English level of their staff is not sufficient to coordinate global tax compliance effectively with their global teams. Based on these points it should not be a surprise that the most critical issue identified with respect to tax compliance is strengthening the tax department.

Despite the above, most Japanese businesses do not appear to have near term plans to address these matters. For example, 80% have no current plans to change their tax operating model in the next 3 years, 86% do not have a plan to adjust their tax sourcing model and 92% either don't have or are not aware of whether they have a formal technology plan for tax.

Signs of change

New initiatives by regulatory authorities can influence change in taxpayer behavior. The Japan National Tax Agency (NTA) has taken steps to encourage large Japanese businesses to enhance their tax governance by offering incentives to those who engage in open dialogue. In addition, in April this year NTA announced it plans to mandate electronic filing of corporate tax returns from fiscal year 2019. Large companies have had the option to electronically file since 2004 but according to NTA approximately half are still filing on paper. Such steps may help steer tax teams away from the traditional paper-based culture and towards a more digital future.

There are other signs of change. For instance, a number of Japanese companies have developed a global tax policy to support tax governance - some have even published an extract on their corporate website for transparency purposes. Others have been exploring ways to optimize global tax processes using technology portals for collecting and consolidating tax related information and documentation. At a local level, some companies are evaluating existing tax and finance processes in order to identify efficiencies such as through the use of robotic process automation.

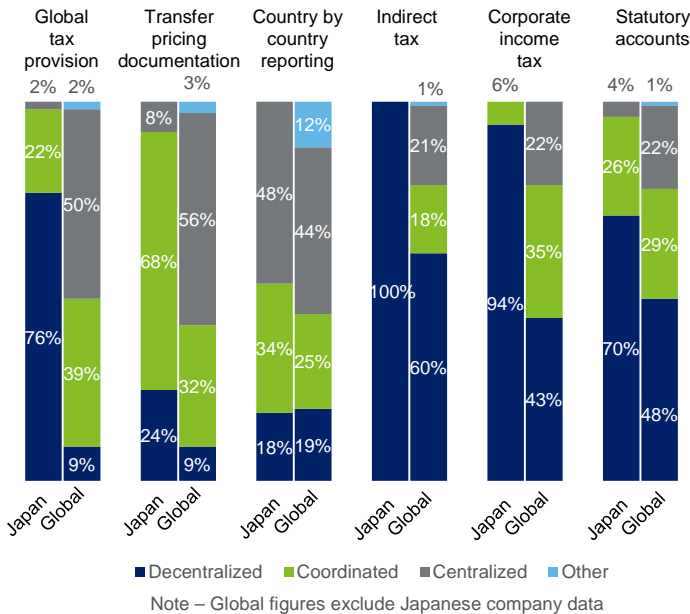


Global tax operating models – management approach to tax compliance and reporting

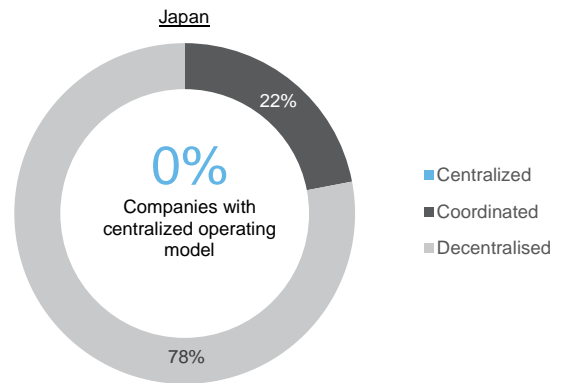
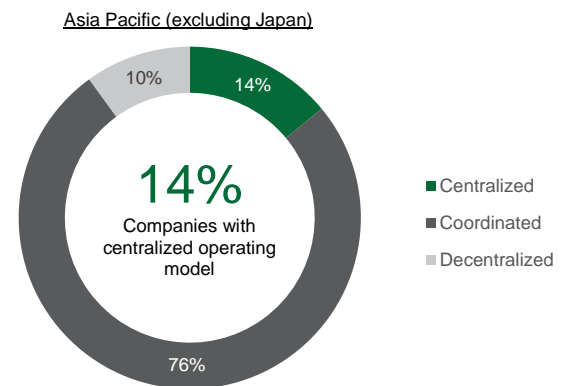
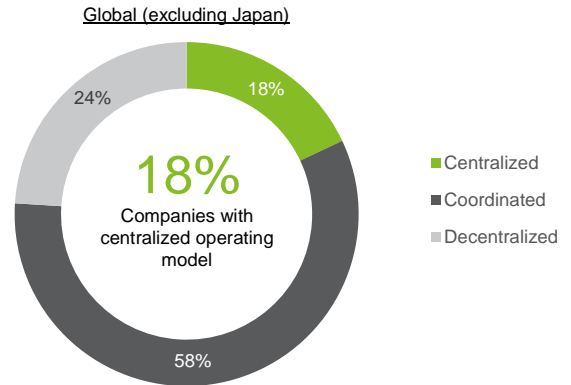
Multinational companies adopt different operating models to manage the core elements of their global tax activities such as compliance and reporting, regardless of whether they in-source or outsource the work.

- 78% of Japanese businesses operate on a decentralized basis compared to 24% and 10% of global and Asia Pacific businesses respectively. Overall, North American businesses (80%) are the most centralized.
- For two thirds of the Japanese companies that operate on a decentralized basis, all tax compliance and reporting decisions are made locally in each country.
- Japanese companies show a similar theme of decentralization across each tax and reporting area. Country-by-country reporting and transfer pricing documentation are the most centralized and coordinated areas.

Management approach by tax and reporting area



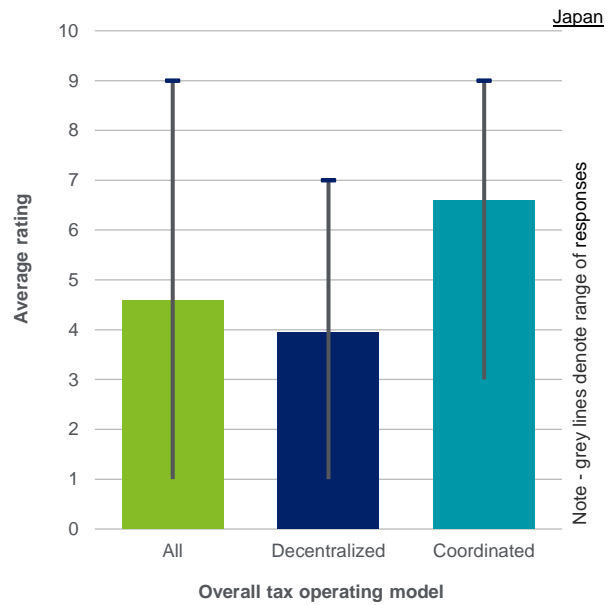
Overall tax operating model



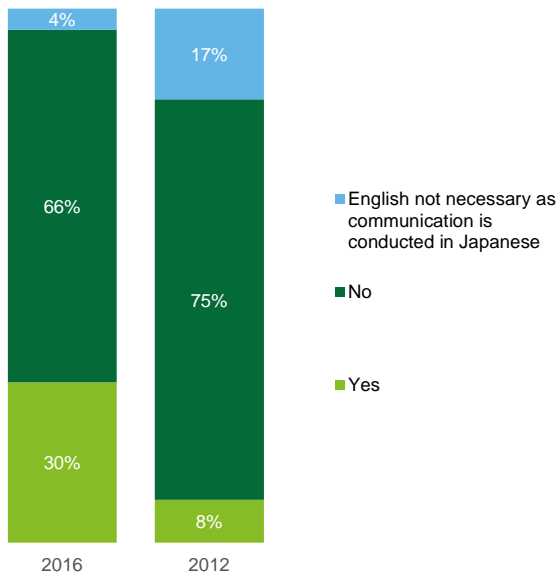
Global tax operating models – performance and future plans

- With an average self-rating of 4.6/10, Japanese businesses do not feel their global tax management is particularly effective. Decentralized companies rate the lowest on average (3.95) and a number of businesses rate their performance 1 or 2.
- Most businesses in both studies report that they do not plan to change their overall tax model during the next 3 years. The 20% of Japanese companies that are planning to change are most likely to move from a decentralized model to a coordinated model.
- Two thirds of Japanese businesses feel their tax staff lack sufficient skills to communicate effectively with global teams in English. Furthermore, almost half have 5 or fewer tax staff in their global teams. These may be constraining factors for those wishing to implement any kind of tax transformation project within their organization.

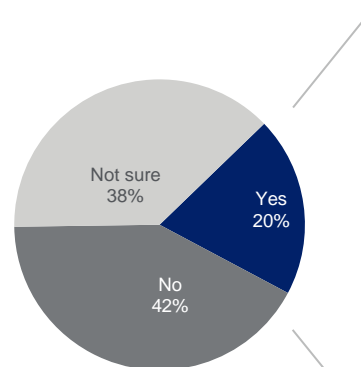
How well do you rate the performance of your current model for global tax management? (1 = not well, 10 = very well)



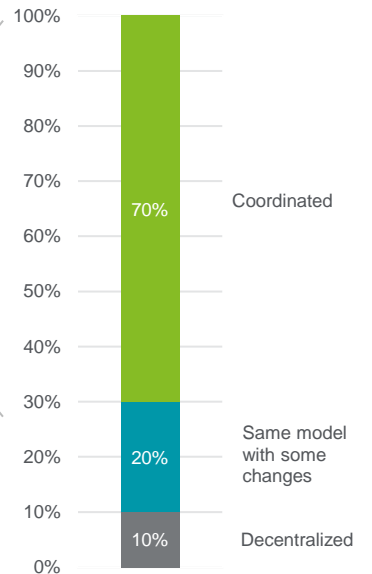
Do you think global compliance can be managed in English by your Japanese tax staff?



Do you plan to change your overall model in the next three years?



Which model do you plan to adopt?



Global tax decision making

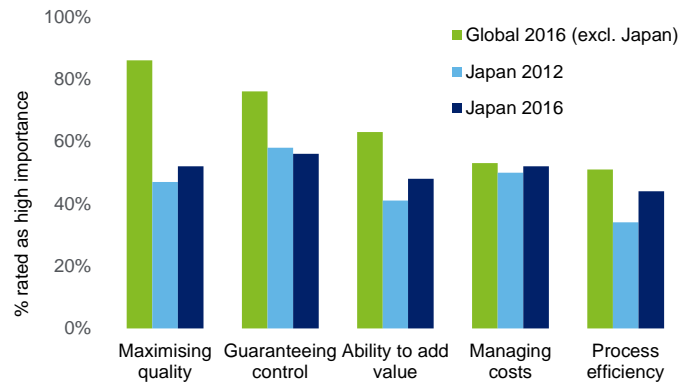
Commercial business drivers shed light into the existing priorities and areas that drive change.

- Overall there has been surprisingly little movement in the highest commercial drivers since 2012, despite regulatory reforms such as those brought about by OECD's BEPS.
- Guaranteeing control is the most important current commercial driver for Japanese businesses, as was the case in 2012. For the rest of the world, maximizing quality is the most important commercial driver which was also the case in our 2014 and 2012 studies.
- Looking forward over the next 3 years, the anticipated drivers for Japanese companies do not look dramatically different. Most companies feel the importance of the commercial drivers will remain the same. Practically no companies expect any the drivers to lessen in importance.
- Outside Japan over 50% of companies anticipate that process efficiency will become more important during the next 3 years; whilst studies to date indicate a higher importance has been attributed to process efficiency than other commercial drivers, perhaps in future priorities will shift.

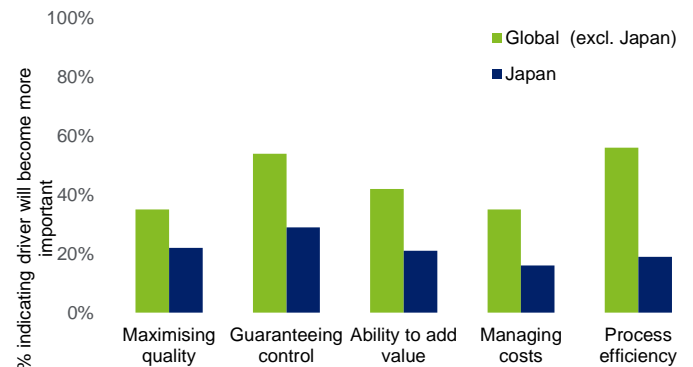
Satisfaction with current state

- One of the most striking revelations from the global studies is the level of satisfaction with current tax operating models. Since 2012 satisfaction levels have plummeted across all areas. Process efficiency is where satisfaction is the lowest with only 18% of companies satisfied with how their operating model performs.
- Moving to Japan, the situation turns from bad to worse. Our studies indicate that Japanese companies may be amongst the least satisfied globally. Satisfaction levels are marginally the highest in the areas of maximizing quality and managing costs, but with only 6% of Japanese companies satisfied in these areas it hardly paints a picture of overall contentment.
- Decentralized companies are the least satisfied in both the global and Japan studies.

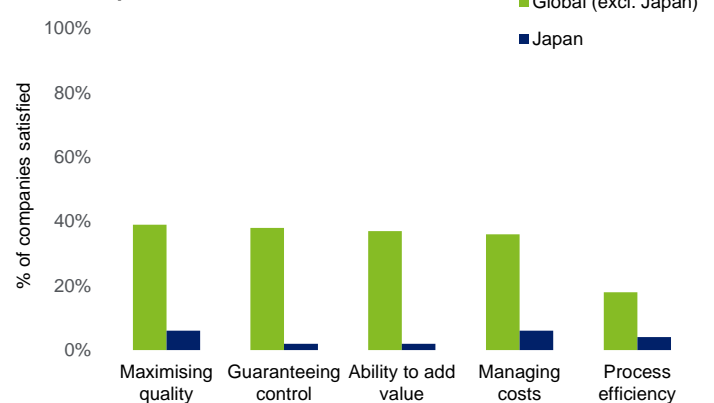
Current commercial drivers of high importance for tax management



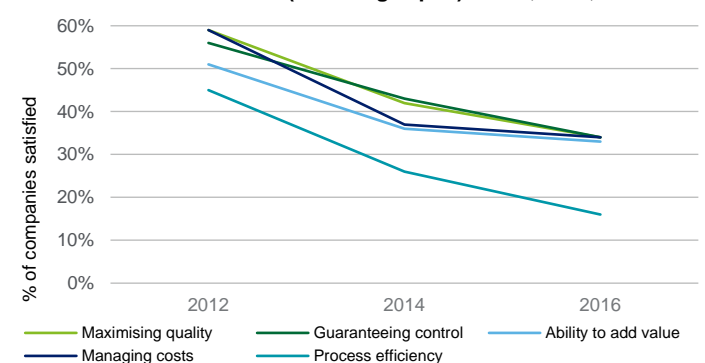
Commercial drivers anticipated to become more important for tax management during next 3 years



% of companies satisfied with each area



Satisfaction levels: Global (including Japan) - 2012, 2014, 2016



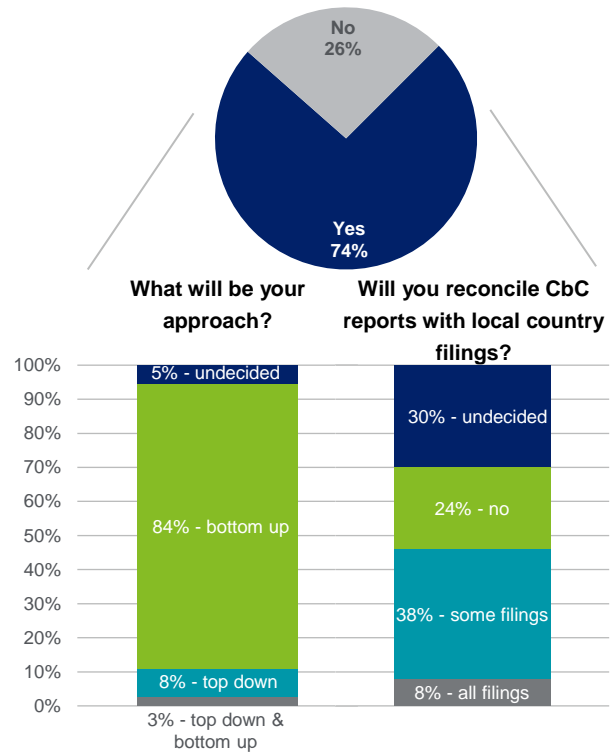
Country-by-country reporting

Businesses were asked about their planned approach for country-by-country (CbC) reporting - whether they intend to take a “bottom up” approach, where data is reported from local statutory accounts, or a “top down” approach, where consolidated income is allocated amongst the countries where the multinational group operates.

- Almost three quarters of the Japanese businesses in the most recent study are required to submit a CbC report, a slightly higher proportion than the global study.
- Most Japanese businesses (84%) plan to adopt a bottom up approach to producing the CbC report, citing the availability of data and ease of approach as the main reasons.
- Few Japanese businesses (8%) intend to take a top down approach, which is markedly lower than global companies (46%).
- Even fewer businesses (Japan – 3%, global - 10%) plan to use a combination of top down and bottom up approaches.
- 43% of global businesses plan to reconcile their country-by-country reports with all local filings compared to 8% of Japanese businesses.

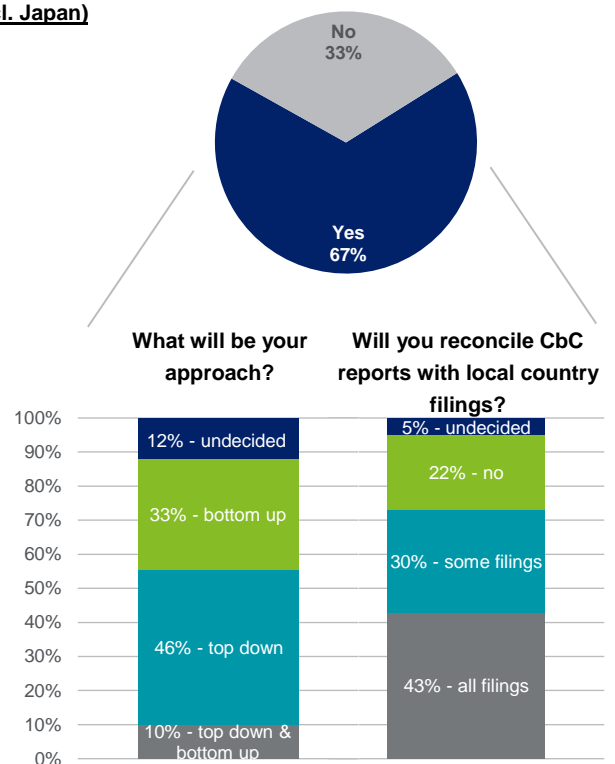
Japan

Required to perform CbC reporting?



Global (excl. Japan)

Required to perform CbC reporting?



Tax governance and risk management

The global landscape of OECD's BEPS, unilateral action by countries and increased international tax present new risks to businesses. Tax risk management should be at the center of good corporate governance.

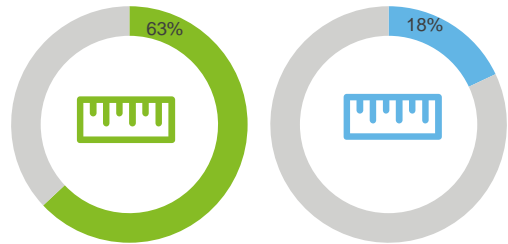
One business response is to create a tax policy (or tax strategy) which sets the standard for which tax activities are performed. Tax policies address among other things how tax risk is managed, key staff roles and responsibilities and the approach to tax planning.

- Based on our findings, Japanese businesses take a much lighter approach to tax governance and risk management than their foreign counterparts.
- 18% of Japanese businesses have formally assessed the level of risk their businesses are prepared to accept, compared to 63% of global companies.
- Barely more than a quarter of Japanese businesses have a form of global tax policy in place. European businesses, in particular those which are UK headquartered (78%), are most likely to have a global tax policy.
- Amongst Japanese businesses that have a tax policy, two thirds have turned it into an operational plan, and of those approximately half are confident that it is being followed.
- Half of the Japanese companies that have a tax policy have had the policy signed off by the board.
- Only 10% of Japanese businesses formally manage tax risk within their business compared to 64% of global businesses; an even wider disparity exists when it comes to reporting tax risk information to the board.

Global (excl. Japan)

Japan

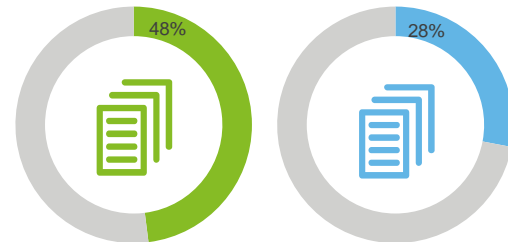
Have formally assessed appetite for risk



Global (excl. Japan)

Japan

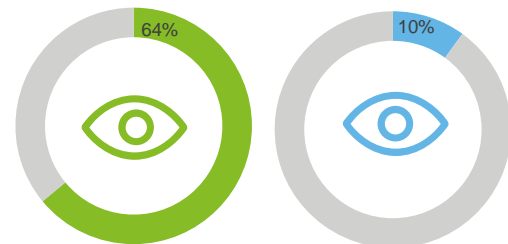
Have formal written tax policy / strategy



Global (excl. Japan)

Japan

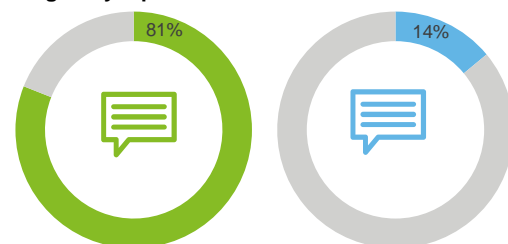
Have a formal process for managing tax risk



Global (excl. Japan)

Japan

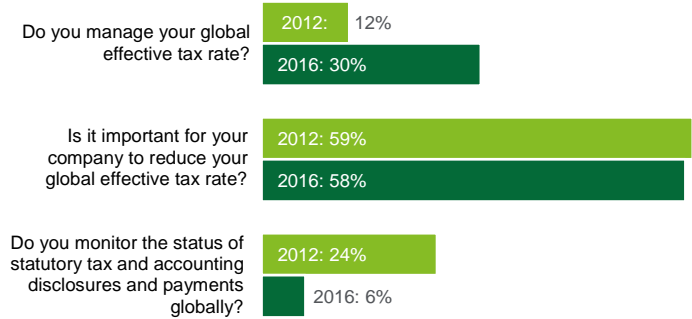
Regularly report tax risk information to the board



Global tax monitoring

- Our 2012 global studies highlighted that global effective tax rates for Japanese businesses are generally higher than those of foreign businesses. Based on the current studies, only 30% of Japanese businesses manage their global effective tax rate, despite the fact 58% feel it is too high.
- As may be expected given the prevalence of decentralized operating models, a very small proportion (6%) of Japanese businesses monitor the status of their tax and accounting disclosures and payments globally. Those that do use a combination of internal collaboration websites, dedicated software tools and outsource monitoring efforts to third party providers.

Japan

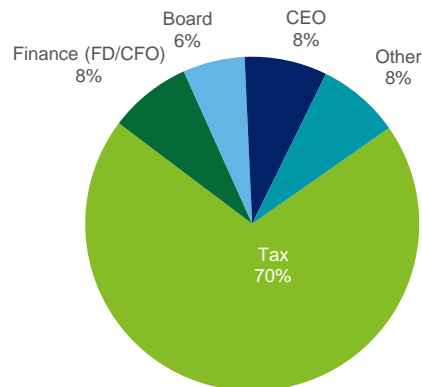


Tax department budget and priorities

- For 70% of Japanese businesses the budget for tax compliance and reporting activities is controlled by the tax function. For the other cases, budget is approved on a case-by-case basis depending on the size and nature of the expenditure.
- 72% of Japanese businesses feel the most critical issue with respect to tax compliance is strengthening their tax department – an indication there is a feeling their teams could be performing at a higher level.

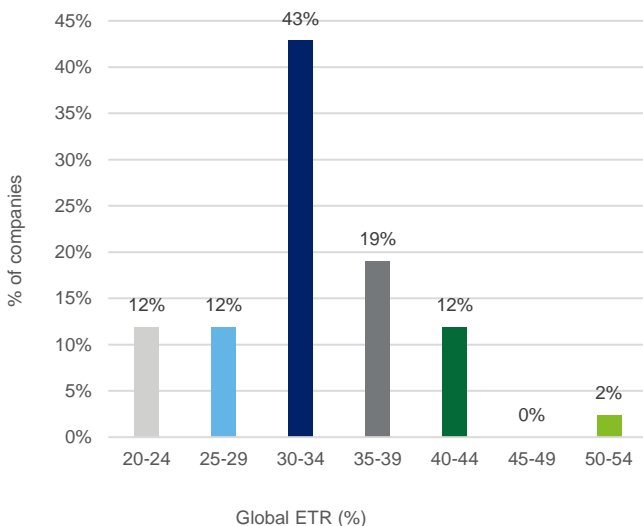
Which of the following controls the budget for global tax compliance and reporting?

Japan



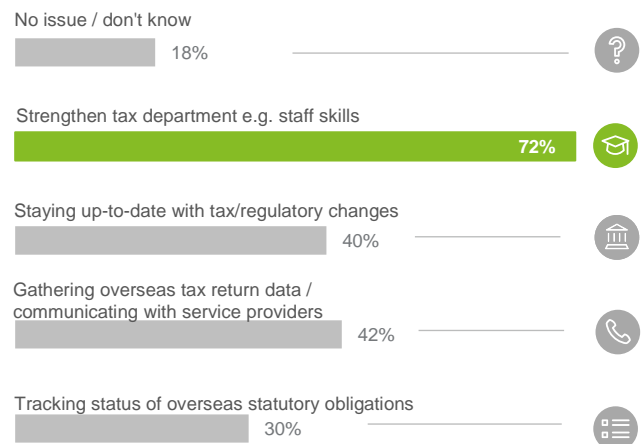
Japan

What is your global effective tax rate?



Japan

What are your most critical issues with respect to tax compliance?



Tax technology

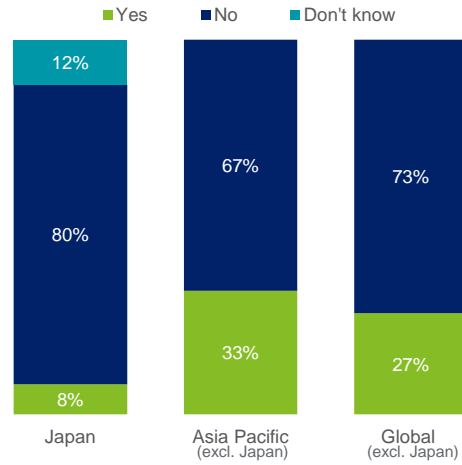
Technology is playing an increasingly important role for tax. It is an enabler for both businesses and tax authorities, who in particular have become more adept at using technology in recent years. In fact, in some ways tax authorities have surpassed businesses in their level of technology sophistication.

Compared to other area of business, tax has arguably been slow to adopt technology. More than ever before the effective use of technology, data management and analytics will be critical to supporting tax departments in future.

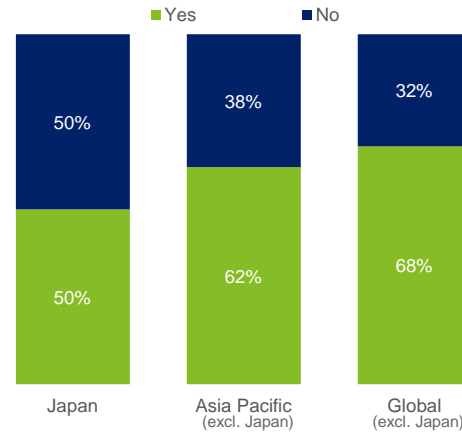
- Our findings suggest that Japanese businesses are lagging behind global businesses in how technology is used within tax. Only 8% of companies have a formal plan (or roadmap) for the use of technology in tax - a number three times smaller than Asia Pacific and global businesses.
- Although 50% of Japanese businesses have an assigned individual responsible for tax technology, only 10% feel that sufficient budget is allocated. In our experience some see tax technology investment as optional expenditure rather than a necessity unlike, for example, tax compliance outsourcing.

Japan

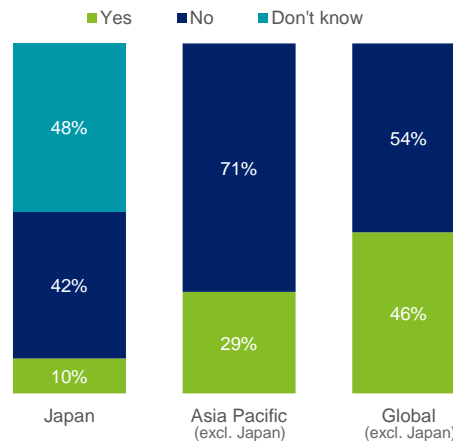
Do you have a formal plan for technology within the tax department?



Is someone in your organization responsible for tax technology?



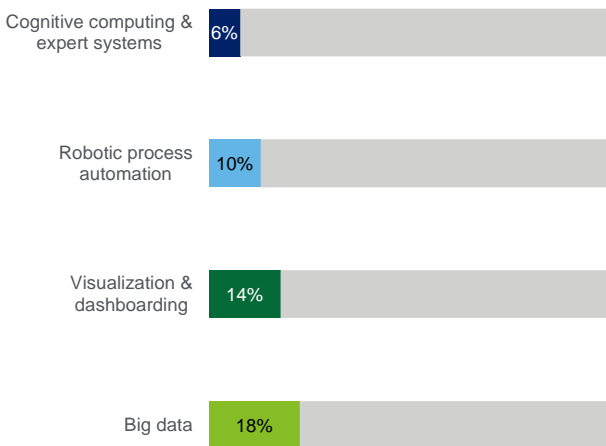
Is there sufficient budget for tax technology?



Tax technology – benefits and emerging technologies

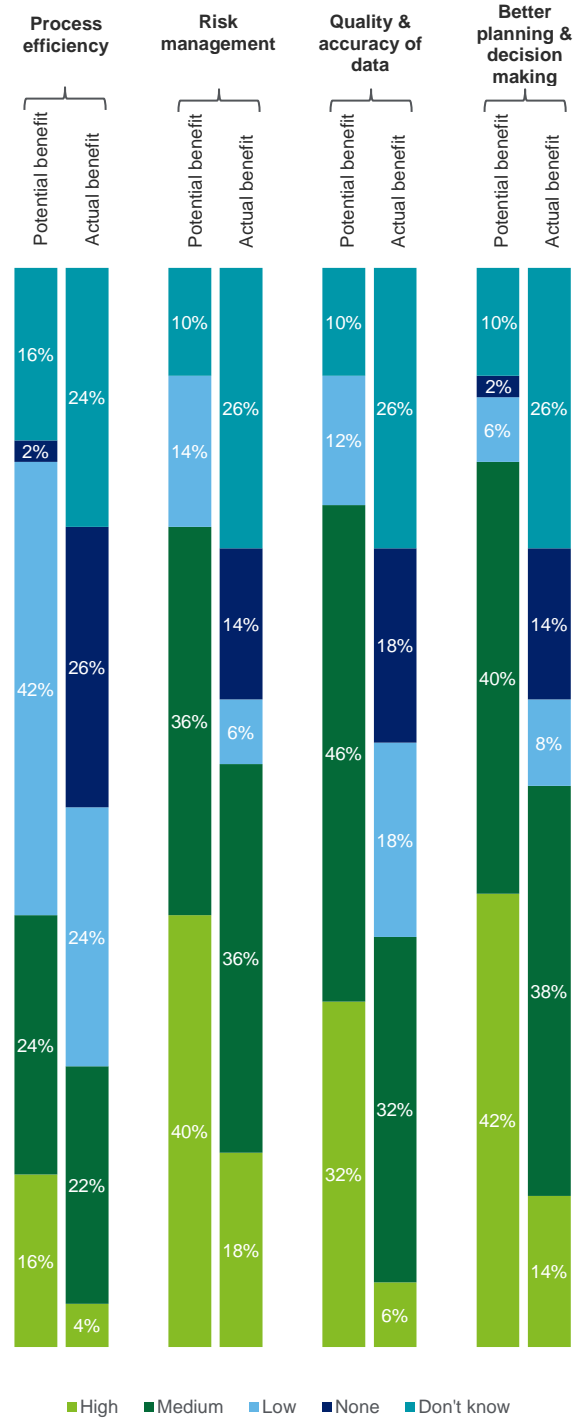
- Most Japanese businesses feel they are not fully utilizing technology - there is an evident gap between the current reported benefits and anticipated benefits. This gap is biggest in the area of process efficiency.
- Whilst a similar gap also exists outside of Japan, the findings suggest that foreign businesses are making greater use of technology than Japanese businesses.
- There are a number of emerging technologies that have the potential to influence how tax activities will be performed in future. Awareness of these emerging technologies is extremely low amongst Japanese businesses, ranging from 6% (cognitive computing) to 18% (big data).
- Almost all of the Japanese businesses that are aware of emerging technologies feel such technologies could support their own businesses in future.
- Japanese respondents cited various impediments to the increased use of technology in future such as internal technology expertise and capabilities, gaps in knowledge around how technology could help and the time and resource required to implement new systems.

Are you aware of this emerging technology? Japan



Japan

To what extent does technology currently improve and to what extent does it have the potential to improve the following areas?



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