

2017 Tax Management Consulting Conference

Aligning tax and business strategy

Deloitte, Kuala Lumpur – 12 July 2017

Agenda

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Introduction

Introduction

In this session we will discuss:

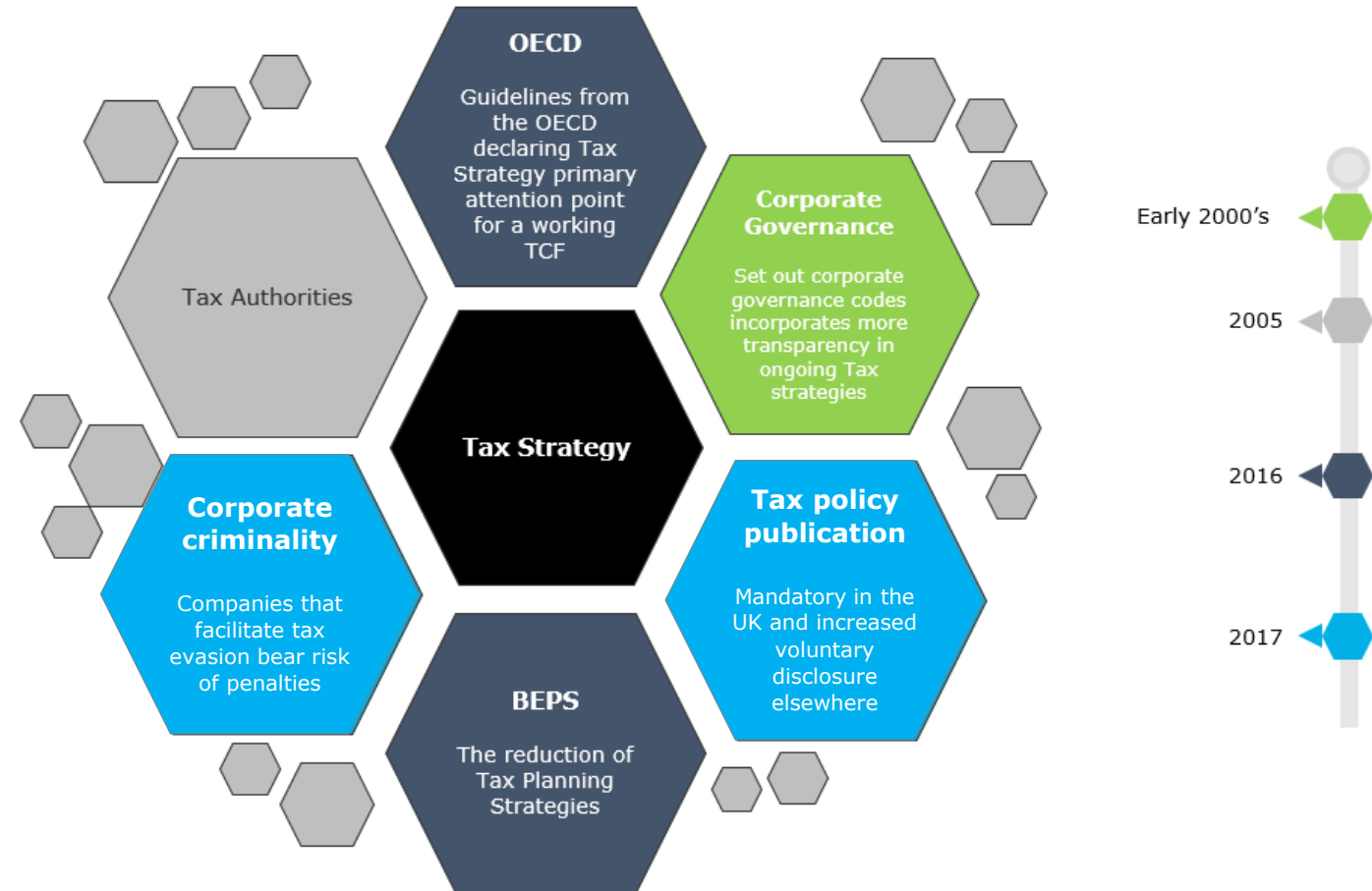
- The changing face of tax in the business
- Case studies around how tax leaders have engaged stakeholders to set and communicate their strategic direction
- The ways in which organisations are embedding their tax strategies into daily activity to drive results

Today's remaining sessions will address these areas in further detail

Current environment

Current environment

- Making sound tax decisions as businesses change their commercial and operational models in a disrupted world is challenging.
- Doing this in a world of unprecedented scrutiny upon tax affairs of corporations, while the international tax system goes through a period of transformation, including demands to be transparent, is even harder.
- Tax has escalated to become a priority area of focus for CEOs and Boards.
- Leading organisations are responding to this with confidence; setting a strategy which flexes to meet the business' changing needs and putting in the place the right people, processes and systems to enable them to deliver more with less.



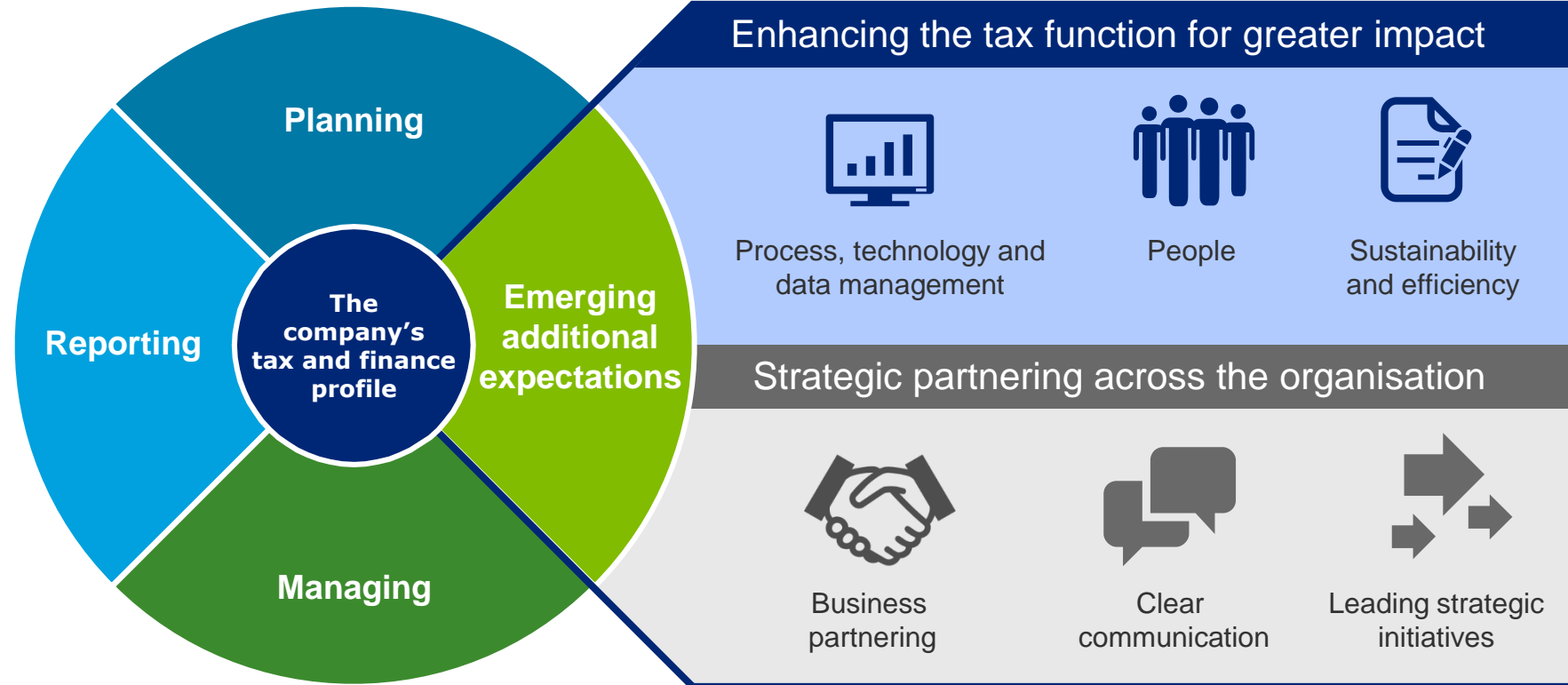
Current environment



The changing face of tax within business

The changing face of tax within the business

Traditional role



Transform ... for greater impact

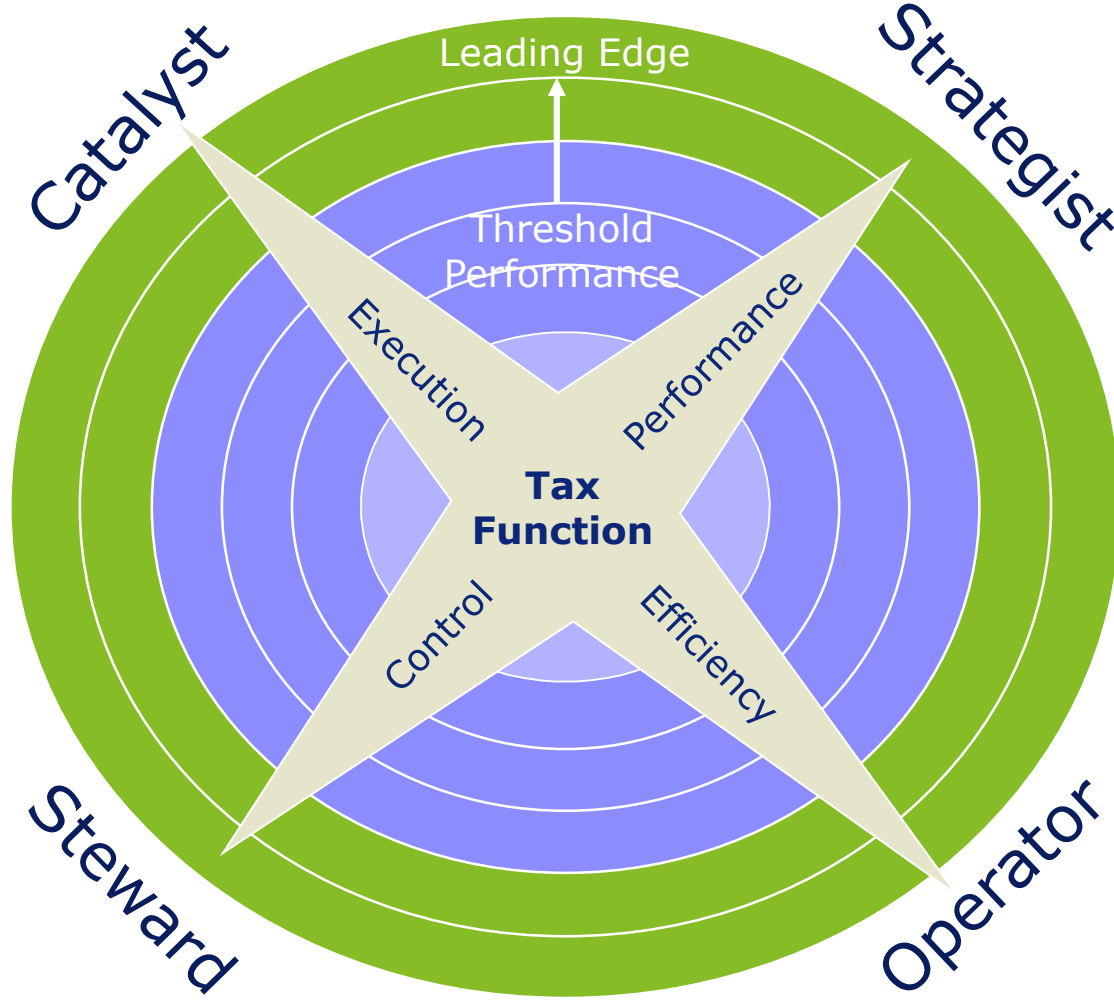
Derived from over 700 Deloitte stakeholder interviews, including CFOs, in preparation for Deloitte Tax Executive Transition Labs™.

The changing face of tax within the business

Four faces model

How does the tax department lead in the rest of the organisation in terms of tax cost and tax risk?

Do I have the right risk model to protect and preserve organisational assets and accurately report on financial positions and operations?



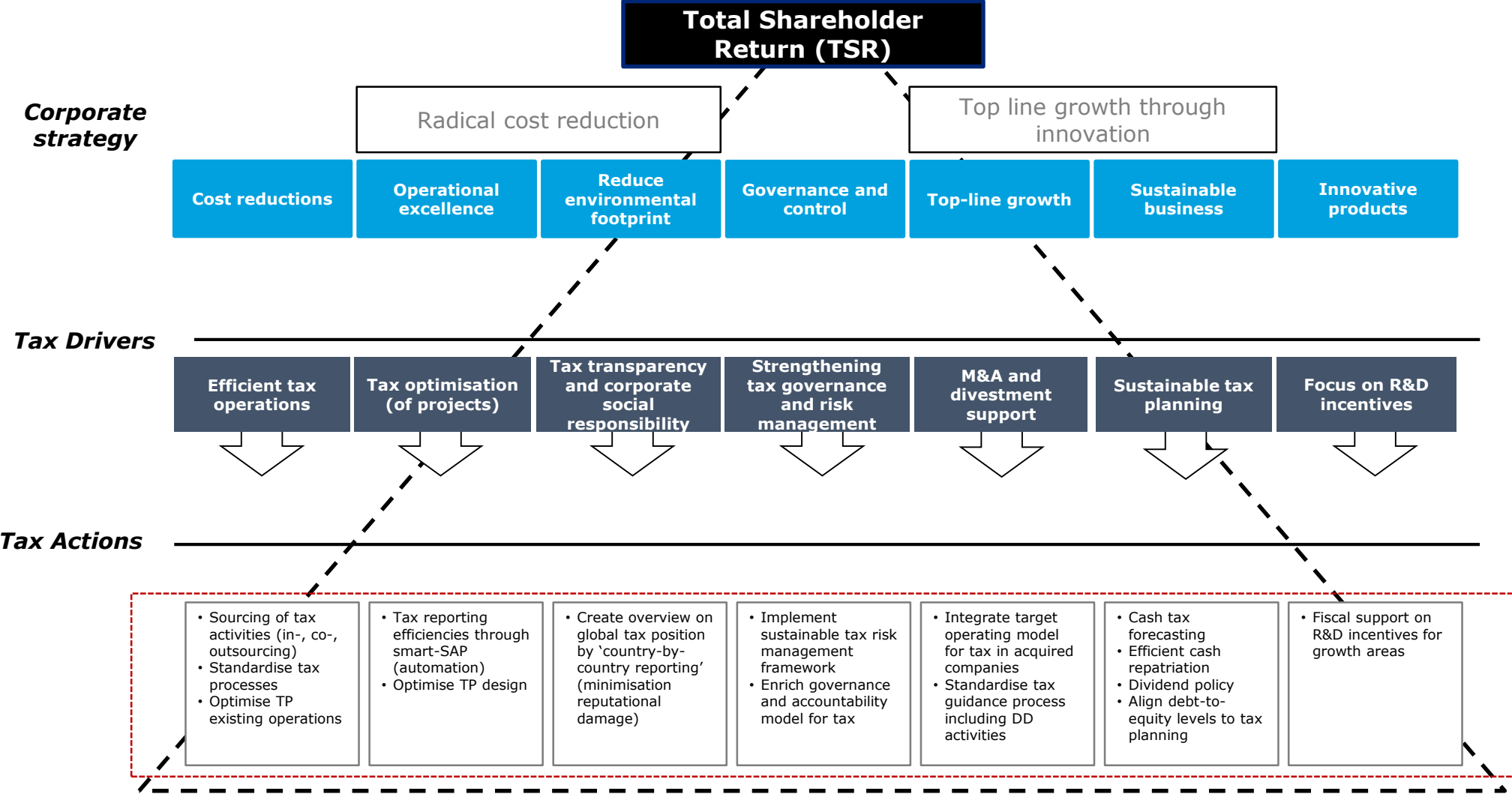
What value do I deliver for the organisation through the tax department to support long-term superior business performance?

How do I operate a tax department that effectively delivers value while managing risks?

Setting and communicating strategic direction

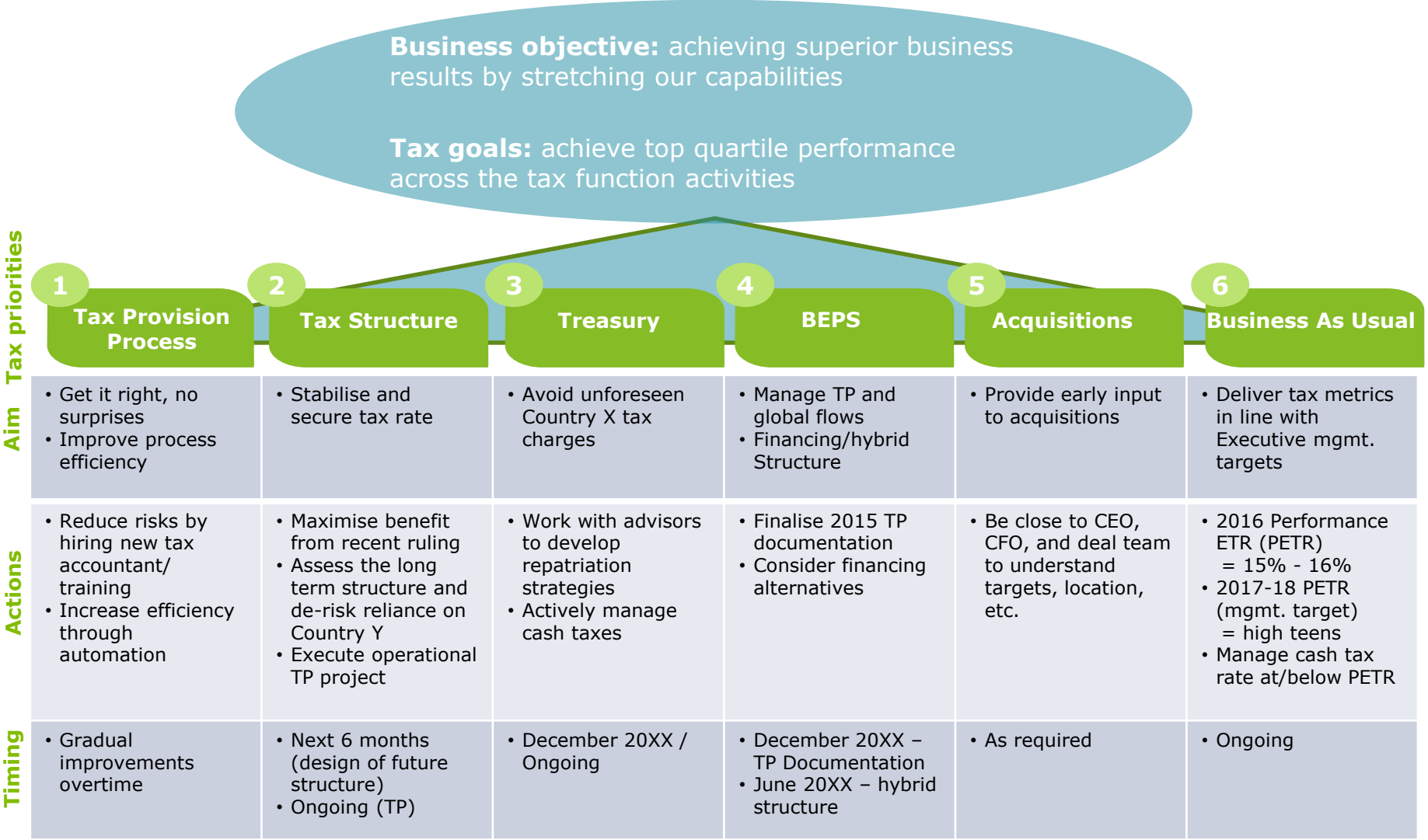
Setting and communicating strategic direction

Strategy pyramid



Setting and communicating strategic direction

Case study: business objectives aligned with tax goals

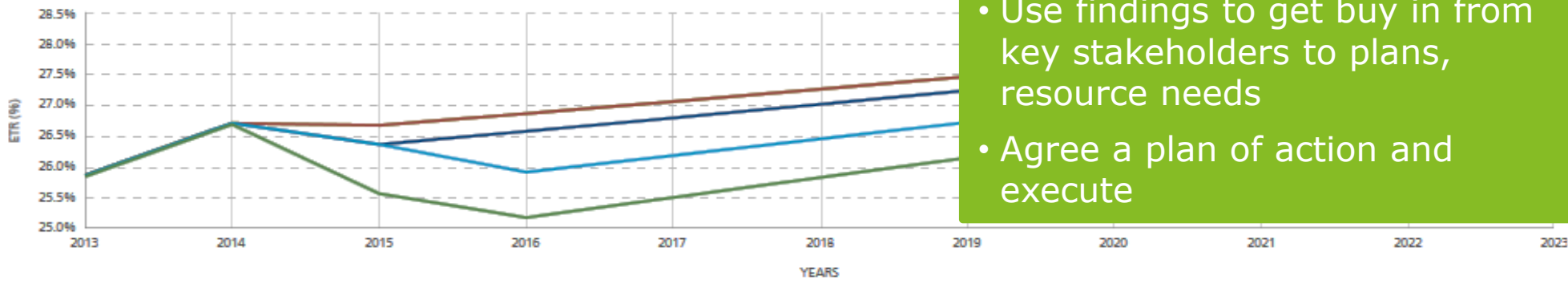


Setting and communicating strategic direction

Case study: understanding the impact of tax strategies

Global ETR-Projected Impact of Planning

Tier Analysis



- Evaluate options to mitigate impact of changes, risks
- Model target ETR
- Use findings to get buy in from key stakeholders to plans, resource needs
- Agree a plan of action and execute

Comparison of Alternative Scenarios

| | NONE | TIER I | TIER II | TIER III | CASH | | | EFFECTIVE YEARS | |
|------------|-----------------------|----------------------------------|----------------------------------|----------------------------------|------------------------------|----------------|-----------------|-----------------|------|
| | | | | | FIRST EFFECTIVE YEAR BENEFIT | 5 YEAR Benefit | 10 YEAR Benefit | Start | End |
| Strategy 1 | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> | 2.0 | 7.8 | 17.6 | 2014 | 2023 |
| Strategy 2 | <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | 4.5 | 13.5 | 36.0 | 2014 | 2023 |
| Strategy 3 | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | 4.9 | 19.5 | 43.9 | 2014 | 2023 |

Setting and communicating strategic direction

Case study: measure progress against goals

| | | |
|--------|----------|---------|
| STATUS | Ahead | At Risk |
| | On Track | Delayed |

| | | |
|--------|-----------|------|
| IMPACT | Very High | High |
| | Medium | Low |

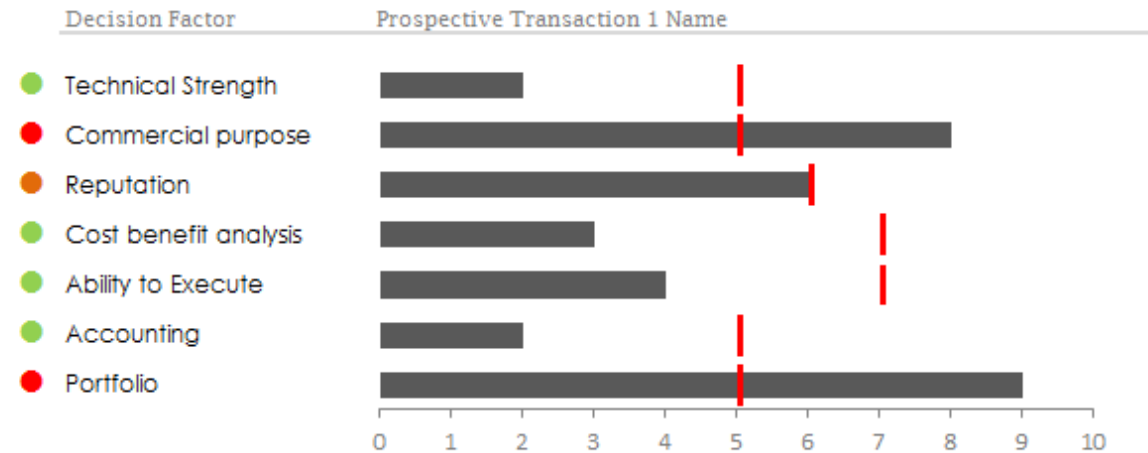
| Initiative | Tax Provision | Tax Structure | Treasury | BEPS | Acquisitions | BAU |
|---|--|--|---|--|---|--------|
| Status | | | | | | |
| Priority | Key Accomplishments / Updates / Opportunities | | | | | Impact |
| Tax Provision Process | Responded to SEC Comment Letter (review closed in Q4). Hired X as Country X Tax Accounting Manager. Process brought in-house; replaced external service provider. Q3 tax provision in line with forecasted rate at end of Q2. | | | | | |
| Tax Structure | Formal ruling of XXX received from the Country Y Ruling Commission on [date]. The deemed royalty rate is 9.5%, providing \$18.7m tax benefit booked in 2016. | | | | | |
| Treasury | [Tax Firm] appointed to consider structuring ideas. Restructuring plan developed for Country W to extract cash at 5% WHT rather than current 10%. \$3m ABS service charge implemented re Country Z (mitigates 20% Indian distribution tax). | | | | | |
| BEPS | TP interviews in progress. TP master file to be completed in 2016. Country by country report produced and to be automated in Q4. Corporate governance re the CV/BV reviewed and to be strengthened. | | | | | |
| Acquisitions | Integration plan developed for xx. IT resources required to complete integration; other priorities may cause delay. | | | | | |
| BAU | Country W 2014/15 VAT audit formally closed. VAT assessment of \$31m deferred pending agreement of German tax authorities. Country X / Y 2015 tax returns submitted. Country W HNTE ruling submitted. Merger of Development into GmbH, providing \$1m tax benefit. | | | | | |
| Q3 Milestones | | | | | | |
| July | August | | September | | | |
| <ul style="list-style-type: none"> ◆ 12/7 XX Ruling obtained | <ul style="list-style-type: none"> ◆ 18/8 X VAT audit closed ◆ 25/8 Reply to SEC Comment Letter ◆ 29/8 W HNTE ruling submitted | <ul style="list-style-type: none"> ◆ 5/9 Country X tax return submitted | <ul style="list-style-type: none"> ◆ 12/9 appeal filed | <ul style="list-style-type: none"> ◆ 20/9 Country Y tax return submitted ◆ 26/9 Hired [Name] | <ul style="list-style-type: none"> ◆ 28/9 W merger | |

Living by the strategy

Living by the strategy

Making key decisions - judgements

- Tax decisions on judgemental matters are expected to be escalated to a suitable layer of management
- These decisions need not only consider the law but also the group's own tax policy, industry standards and external opinion
- Leading groups have developed criteria for assessing situations where there are choices
- The criteria and thresholds are tested against real-life scenarios
- Legacy positions are considered
- The guidance is used to drive appropriate escalation/reporting to senior management
- This enables appropriate, consistent decision-making



| Scope | To evaluate the strength of the technical analysis of the proposal. |
|-------|--|
| 1 | Certainty over appropriate tax treatment; close precedent established in case law; legislative change regarded as extremely unlikely. |
| 3 | One or two minor areas of possible technical exposure; good precedent available; legislative change regarded as very unlikely. |
| 5 | Some areas of possible technical exposure but not expected to be successfully challenged; some precedent; legislative change regarded as possible but unlikely.. |
| 7 | Significant areas of technical exposure which are likely to attract the authorities' attention; no precedent; legislative changes regarded as likely. |
| 10 | Many significant areas of technical exposure; legislative change regarded as highly likely. |

Living by the strategy

Making key decisions - operations

- Senior management of large organisations are increasingly expected to actively oversee the management of taxes
- See new requirements in Germany, Ireland, Spain and the UK
- Tax authorities in many countries, e.g. Australia, Canada, the Netherlands are following OECD guidance which encourages adopting a risk-based approach, often overseen by senior management
- A key aspect of these rules is having processes which enable risks to be escalated to senior management to ensure resources are appropriately applied



| | Governance and Accountabilities | Process and Controls | Systems and Data | Resource and Training |
|--|---------------------------------|----------------------|------------------|-----------------------|
| Corporate Income Tax Compliance | Yellow | Orange | Green | Yellow |
| Indirect Tax Compliance | Orange | Orange | Yellow | Orange |
| Tax Accounting | Yellow | Green | Green | Orange |
| Tax Advisory and Planning | Orange | Red | Green | Red |
| Tax Controversy and Dispute Resolution | Orange | Green | Green | Yellow |
| Tax Management | Orange | Red | Orange | Red |

Living by the strategy

Case study: tax operating model design aligned with tax function aims

Tax function aims:

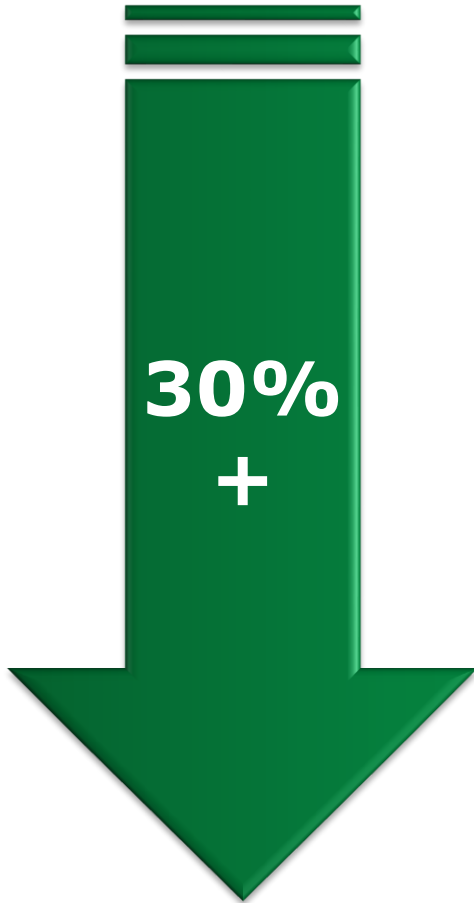
- Comply with tax obligations on time and accurately
- Be a valued strategic partner for internal stakeholders
- Protect and optimise value through efficient planning of taxes, within the stated risk mandate
- Effectively influence national and international tax policies

Design fundamentals:

- A Board endorsed tax strategy
- A cost effective tax function structure
- Major risks are well understood
- Function with clearly defined competencies and technical skills
- A stakeholder engagement plan
- A strong process for evaluating tax planning ideas
- Global technology plan

Living by the strategy

Case study: transforming global compliance



Client goals

- Simplify service delivery across geographically dispersed offices
- Establish a single point of contact for global compliance services
- Standardise the tax compliance processes
- Safeguard quality and actively manage compliance risk
- **Deliver cost savings of at least 30% to the business through the streamlined delivery of compliance services**
- Partner with a single supplier who can provide a full suite of support services



Process



People



Technology



Knowledge

Conclusions and next steps

Conclusions and next steps



Understand the impact of external forces on your business



Review your tax strategy, aligning it with business goals



Develop clear communications channels for monitoring success



Make key judgemental and operational decisions in the right way

Learn more about how others are doing this over the course of today!



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