

2017 Tax Management Consulting Conference

Welcome and tax management trends

Deloitte, Kuala Lumpur – 12 July 2017

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Overview

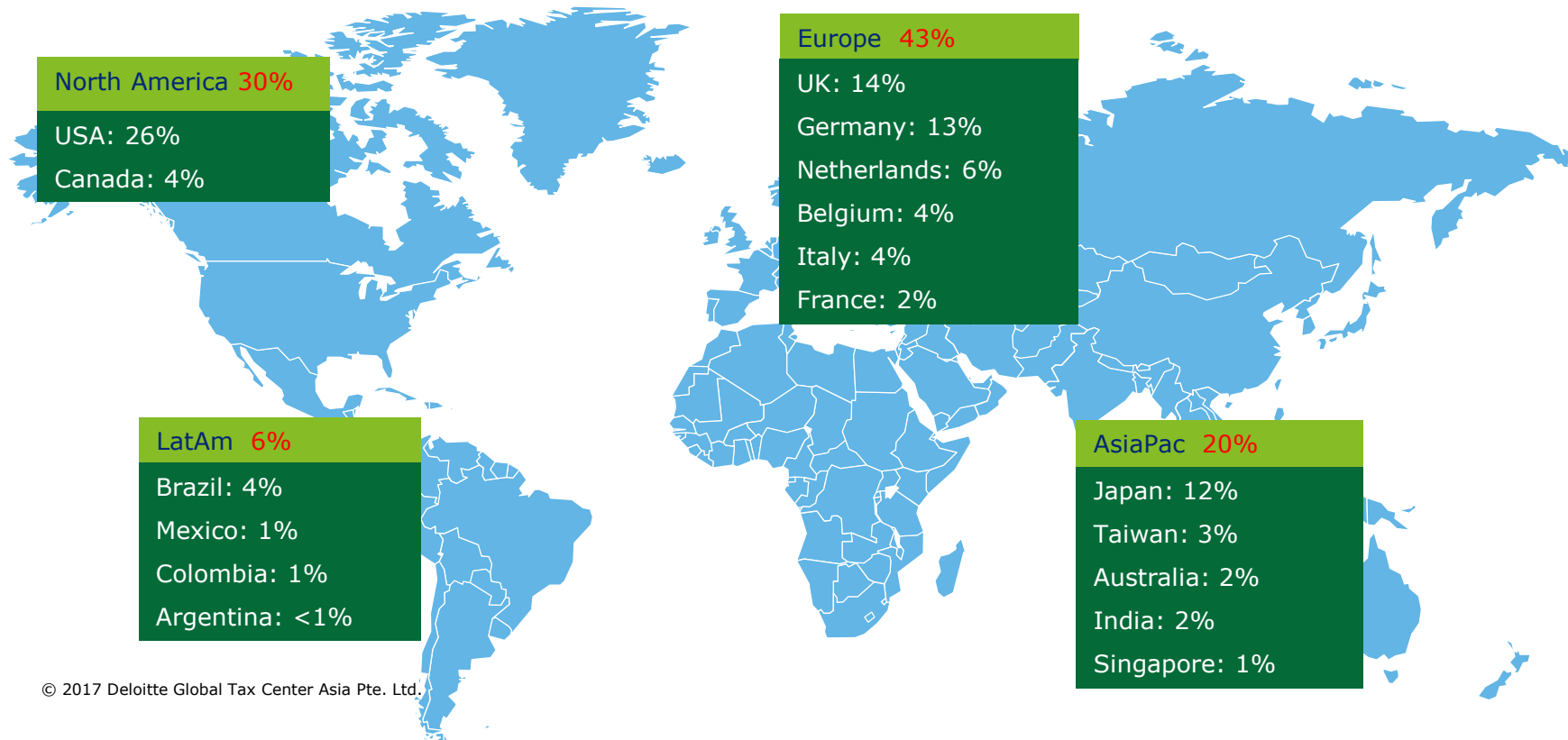
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Market overview

- Deloitte has carried out an independent biennial survey into the management of tax 2010 to 2016
- Each conducted with 250 global decision makers from the largest global MNCs
- Resulting in data from 1,000 interviews with key global decision makers

The population of MNCs:

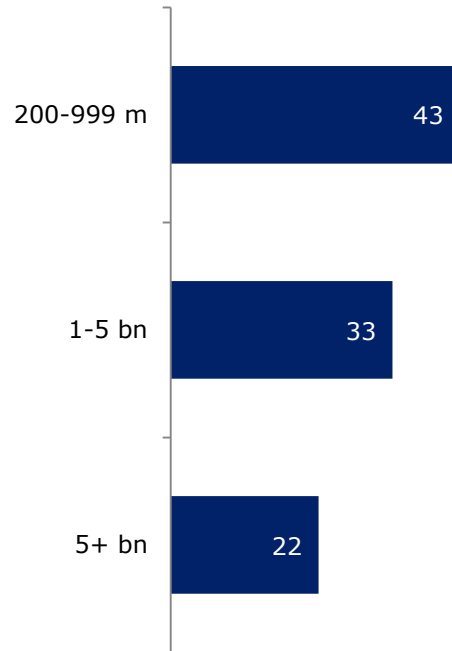
- Operating in 5+ countries
- Global revenue of more than US\$200m
- Representative spread of MNC HQ and subsidiary locations
- Spread of industry sectors



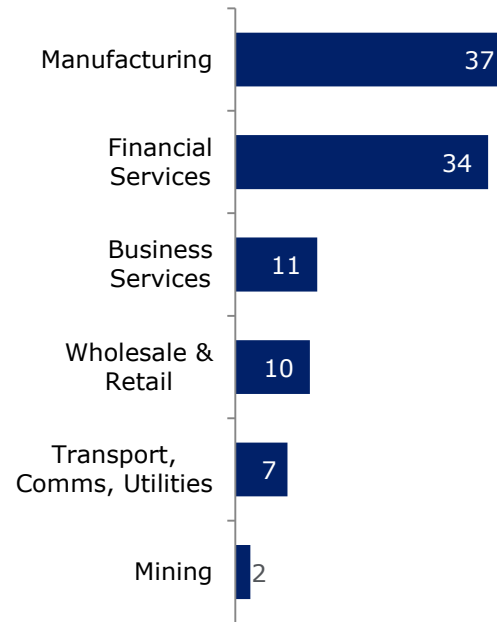
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Market overview

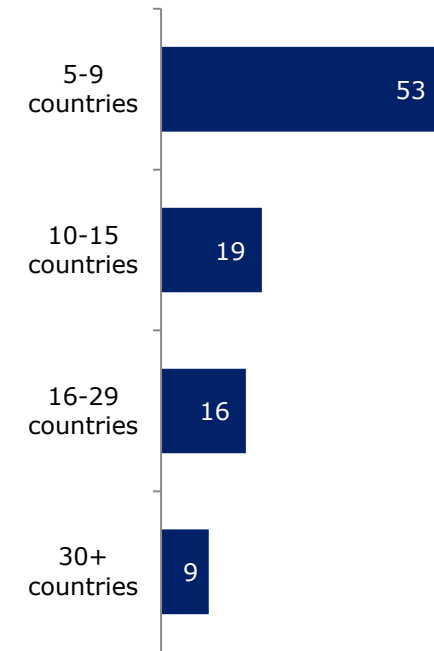
Global revenue
%



Industry sector
%



Number of countries operating in
%



Research continued to cover MNCs tax operating models comprising:

- Processes
- Resourcing
- Governance
- Technology

Some new elements in 2016 survey:

- TP documentation and CbyC reporting
- Emerging technologies

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Market overview – the story so far

The research findings from 2010 to 2014 gave a pretty clear story of pressure causing a reasonably consistent MNC response

Environmental pressure from all sides



Increased regulation



Globalisation of business



Increasing impact of technology



Internal pressure to do more with less

Causing MNCs to follow a clear path



Search for quality and control with a desire to be able to add value but too busy to do so



Changes in tax operating models: centralization; integration; and consolidation



Increased governance and risk management

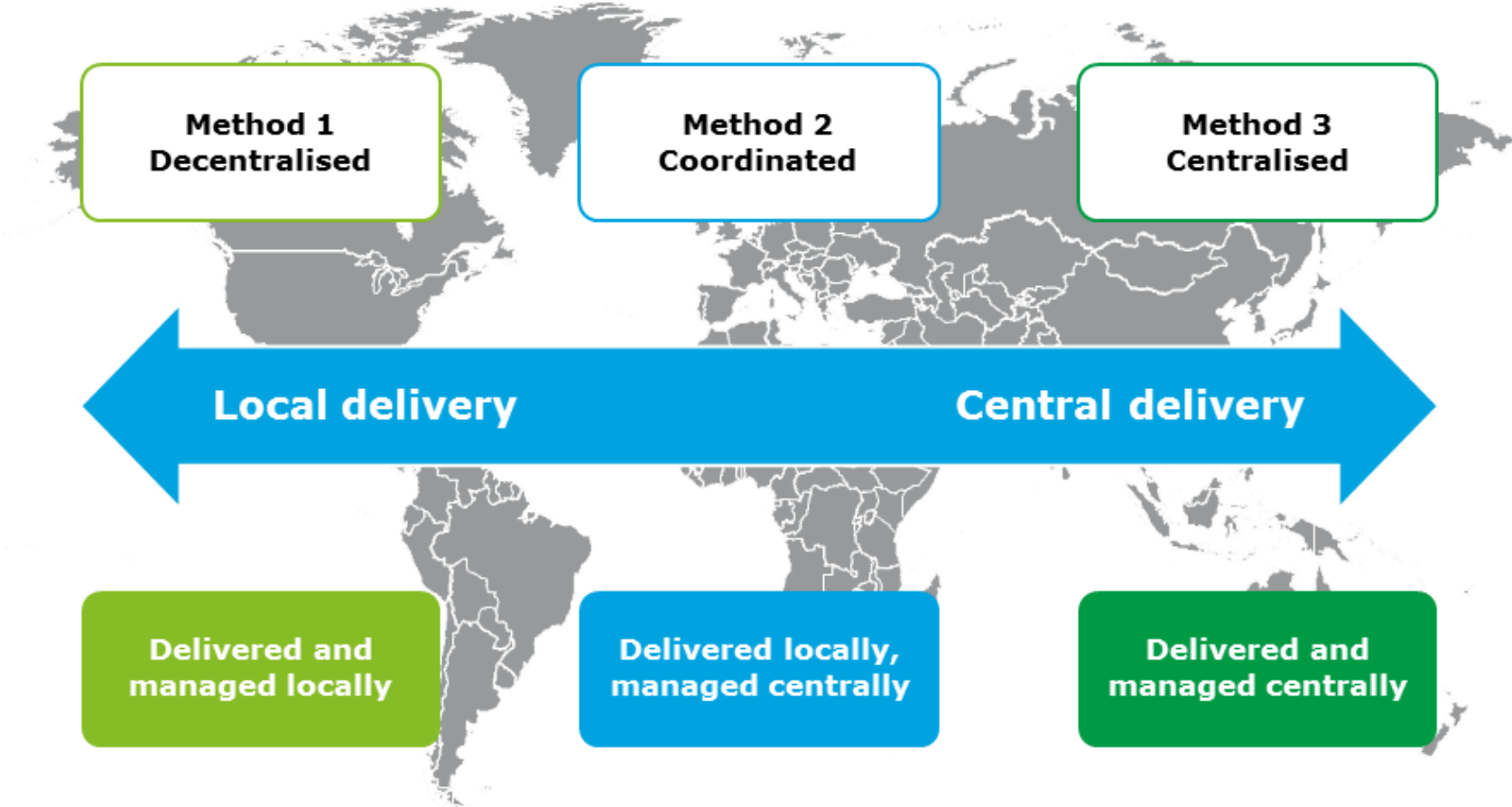


Early steps with technology but nervous of big change

Tax operating models

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Tax operating models

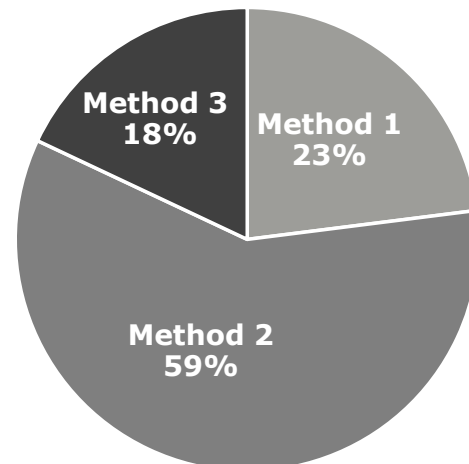


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Tax operating models

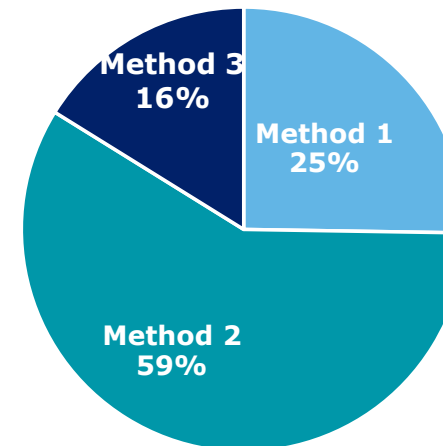
- Less centralization has occurred than was anticipated in 2014
- Models broadly static – though fewer clients are operating method 3 in 2016 than 2014
- Overall Client delivery models are forecast to remain static over the next three years

2014 model



11% plan to make changes within their existing Client Method

2016 current model



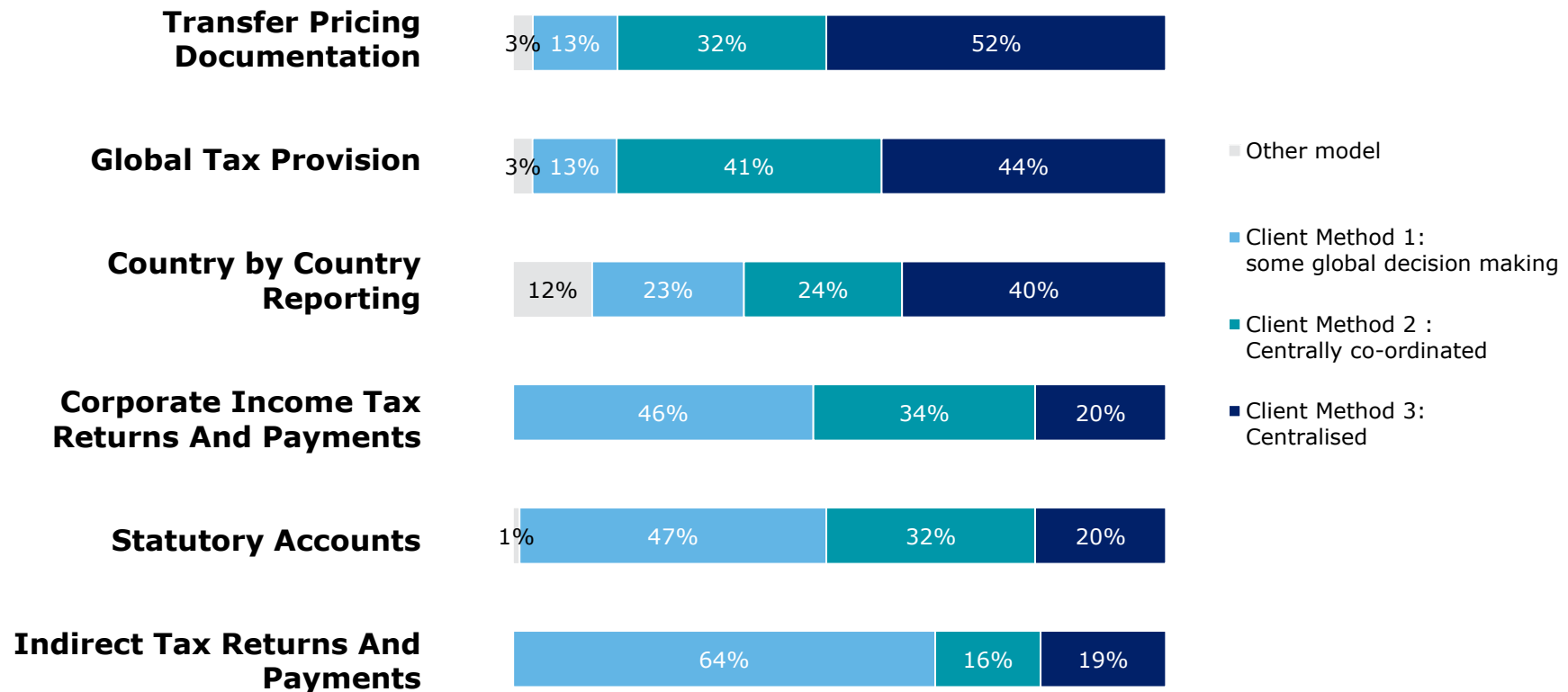
33% of Method 1 plan to move to a more centralised operating model in 3 years

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Tax operating models – by process

Considerable variation

- Indirect tax returns are the most decentralised area
- More global tax provisioning (particularly US GAAP reporting) being outsourced
- New areas (TP documentation and CbC reporting) are managed/ expected to be managed in a relatively centralised way

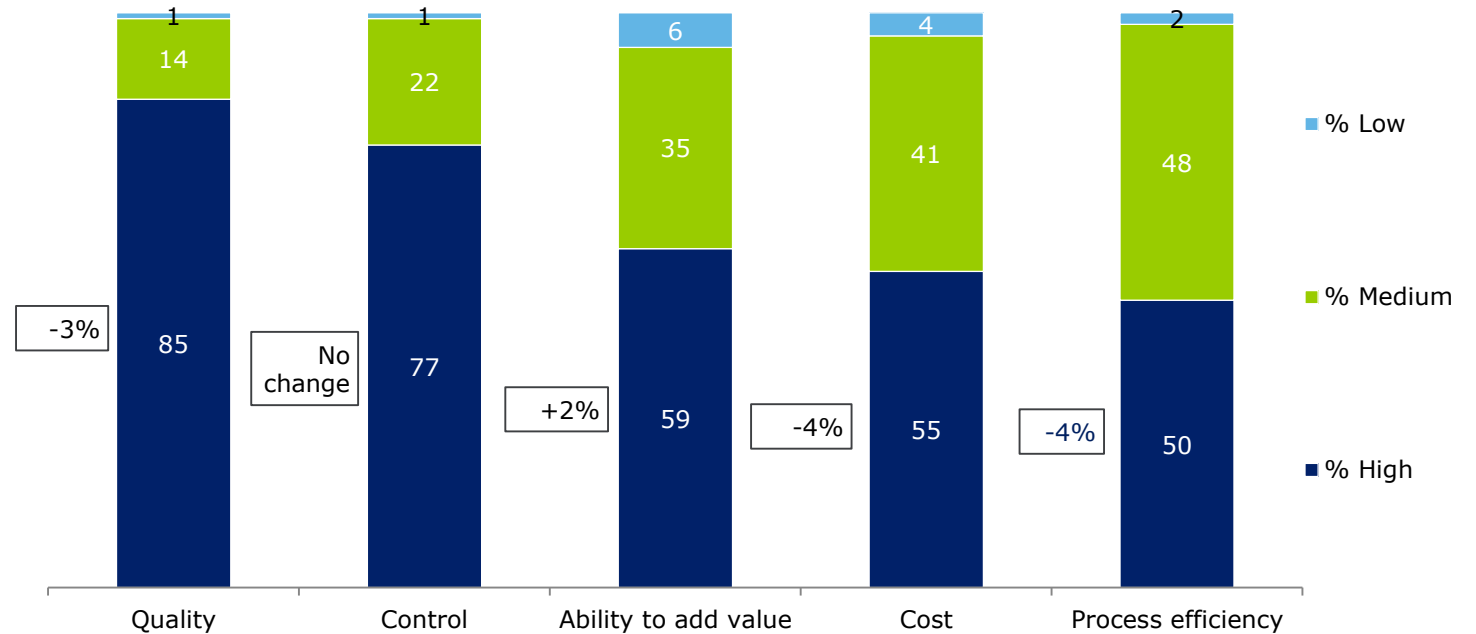


Main commercial drivers

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Commercial drivers

- Consistent with previous years – quality and control continue to be key
- Qualitative interviews suggested ongoing response to regulation has placed greater emphasis on other drivers
- Cost and process efficiency are less important to those operating centralised models whilst this is a key driver for those operating client method 1



Cost	Return on investment, overall value for money
Control	Transparency, visibility, risk management, consistency
Quality	Expertise, accuracy, timeliness, reliability
Process efficiency	Simple, trouble free, easy to manage
Ability to add value internally to the business	Contribute to strategic success/corporate objectives, contribute to transformational change and provide tax input to operational decisions

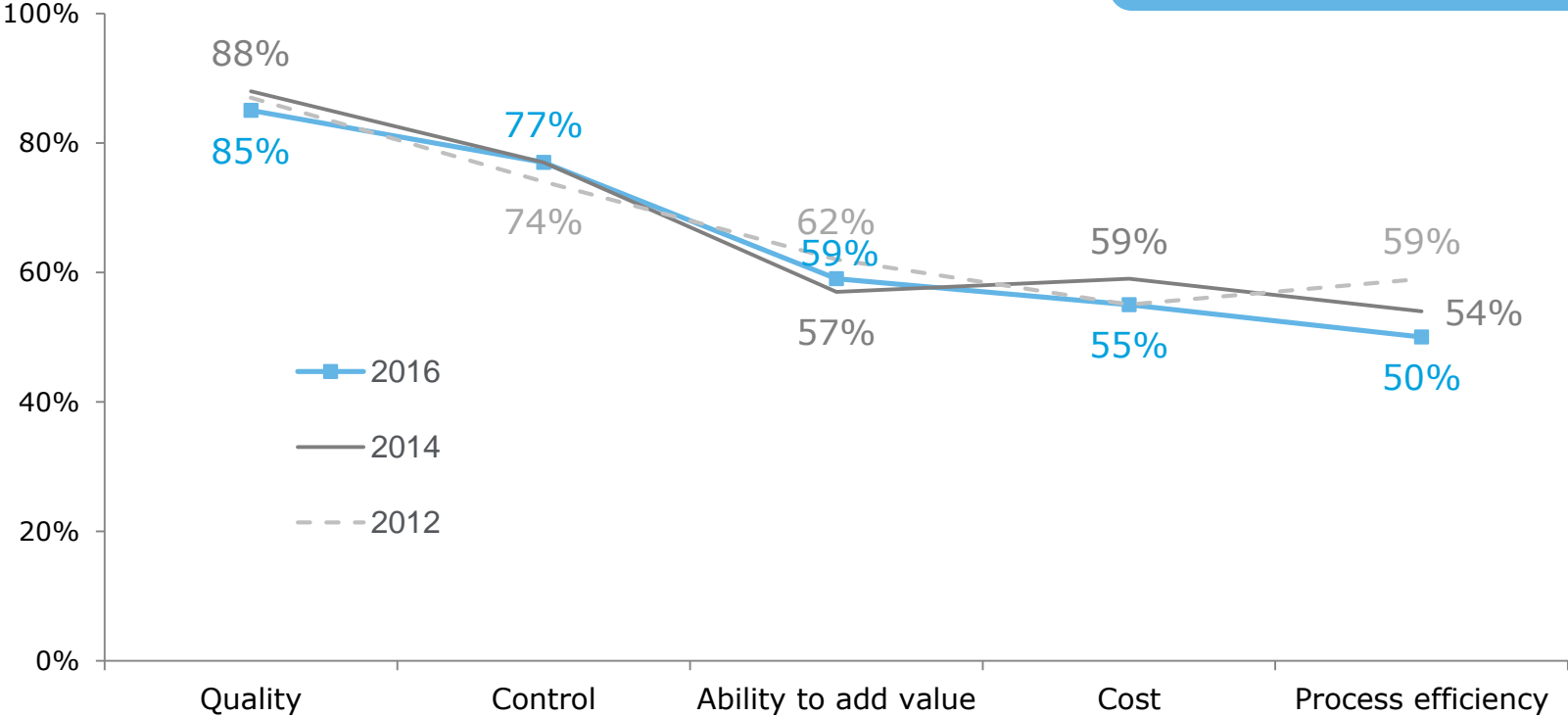
Organisations anticipate that **control** and **process efficiency** are both likely to become increasingly important

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Importance of current drivers

Current drivers of organisation & management of tax
Trend since 2012 (% High importance)

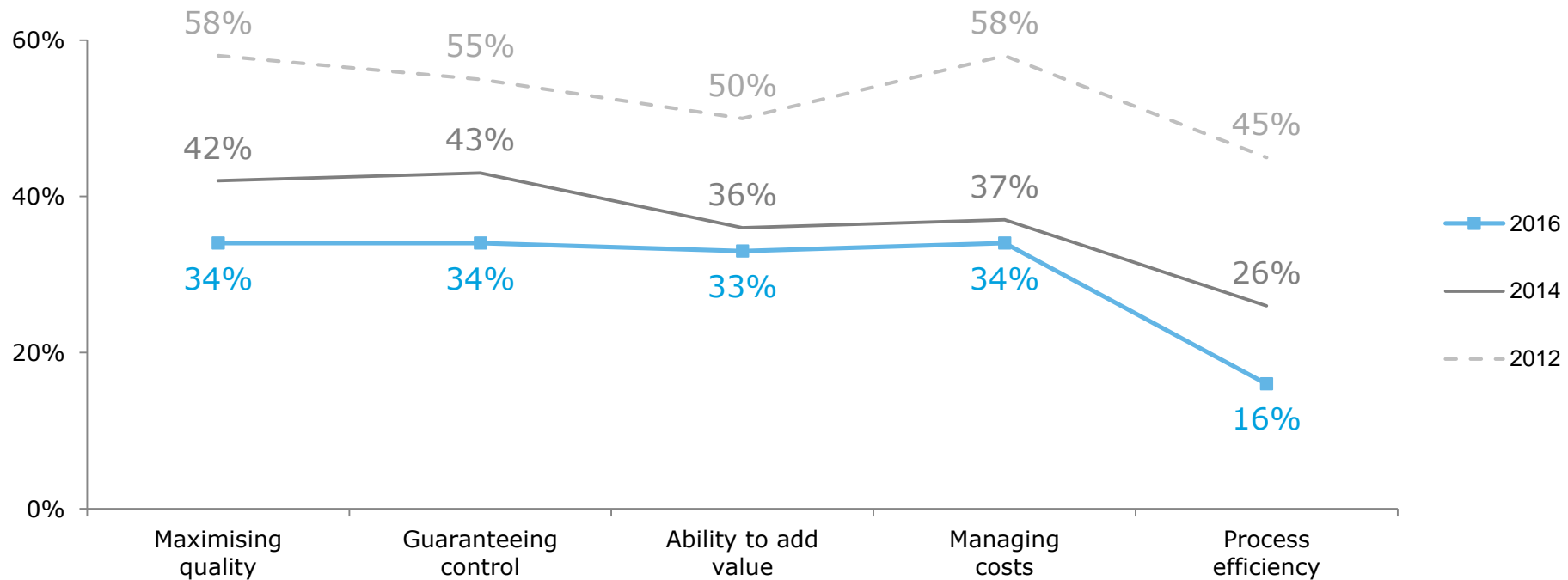
Little change in the importance of drivers since 2012, although process efficiency has declined



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Satisfaction levels

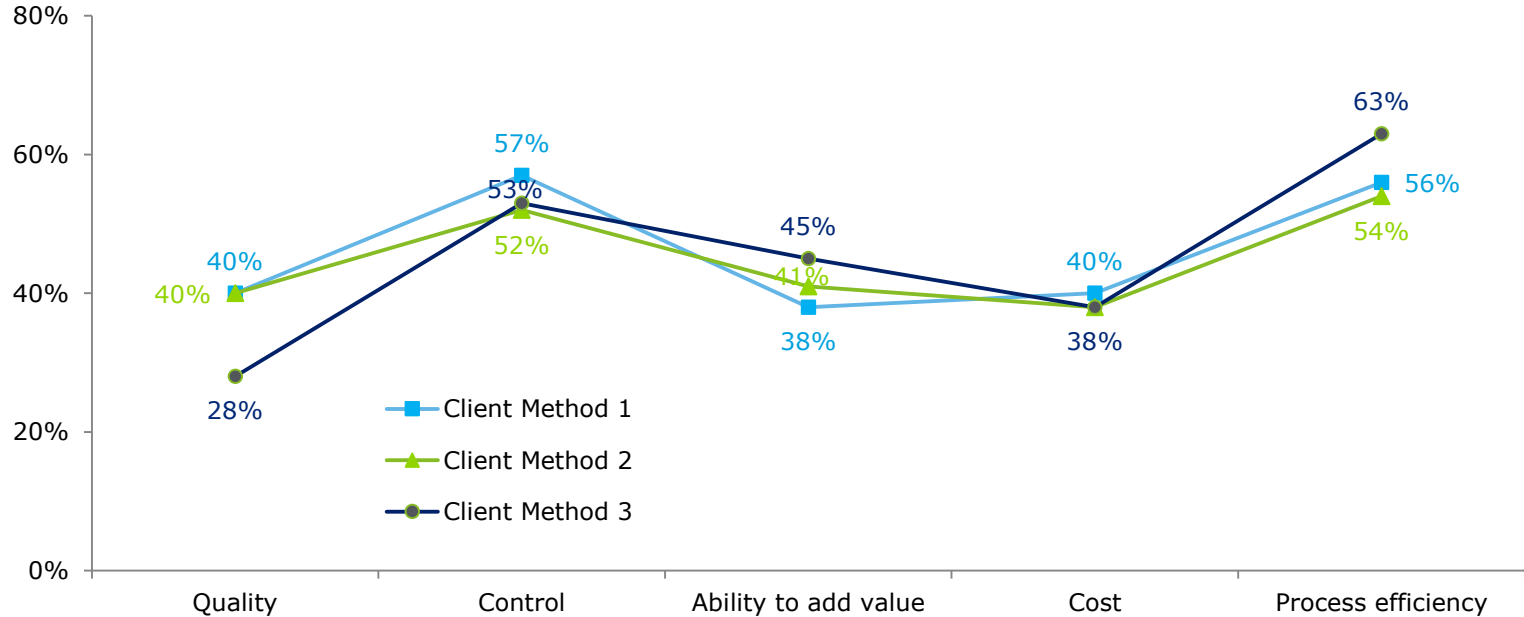
- Levels of satisfaction with the current delivery model remain low.
- Satisfaction with process efficiency is particularly low at 16%.
- Companies adopting method 2 are consistently the most satisfied.
- Companies adopting method 1 tend to be least happy.



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Future importance of drivers

Anticipated importance of drivers over next three years
(% more important)



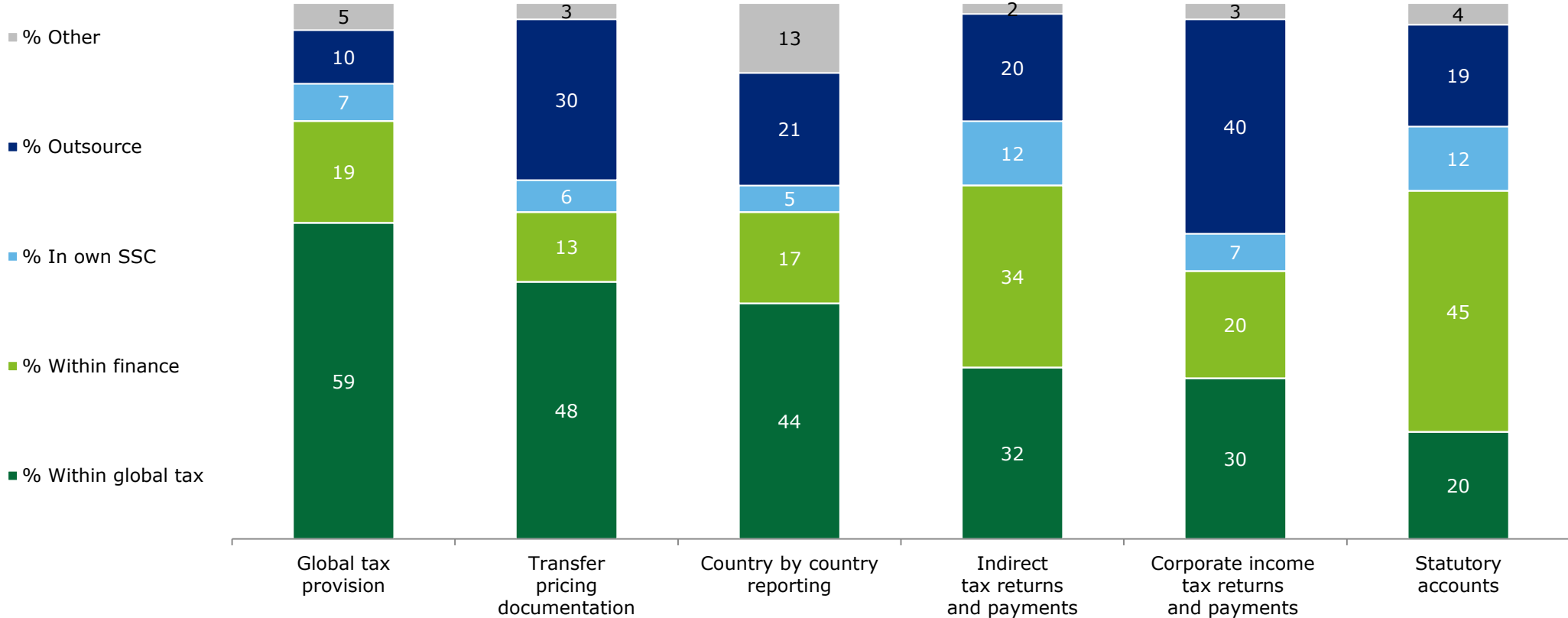
1	2	3	4	5	Rank order of <u>current</u> importance

Resourcing

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Resourcing

Current resourcing model



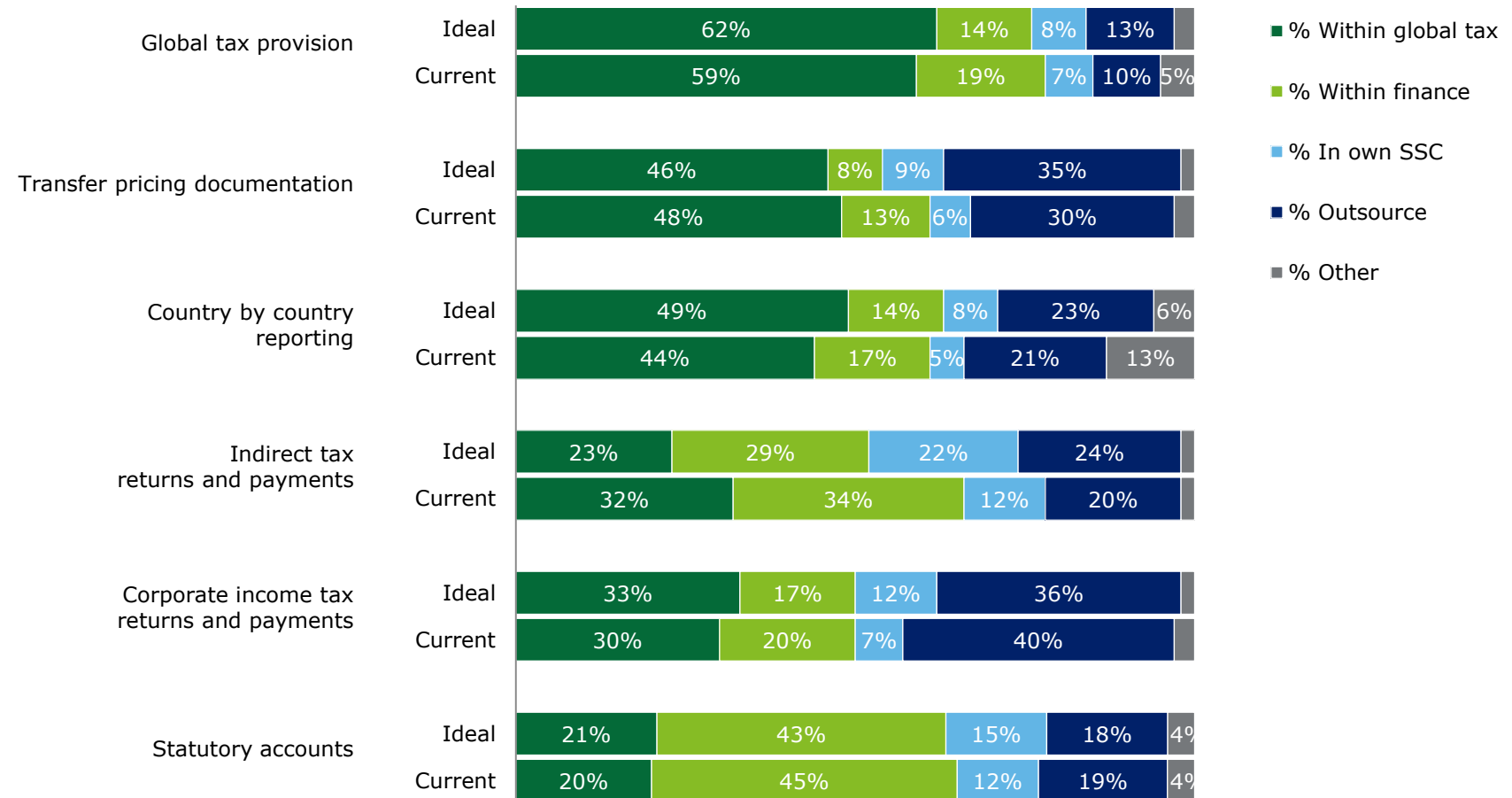
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Resourcing

In an ideal world MNCs would do:

- less in finance (Provision, indirect and TP documentation);
- more in global tax (Provision and CBC Reporting);
- would push more indirect into Shared Service Centres; and
- outsource more of TP documentation and indirect tax.

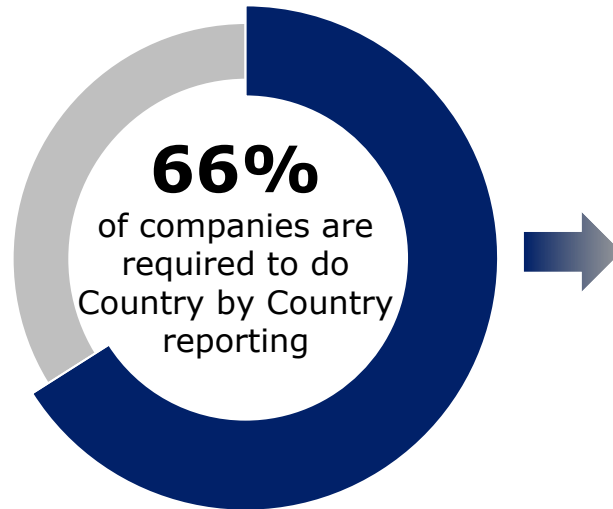
Ideal versus current resourcing model



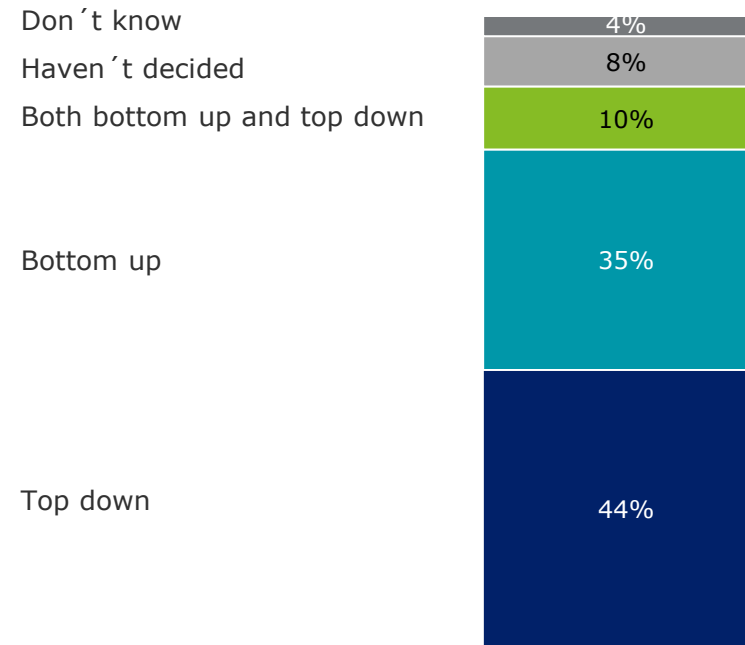
Country by country reporting

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Country by country (CbC) reporting



CbC reporting approach



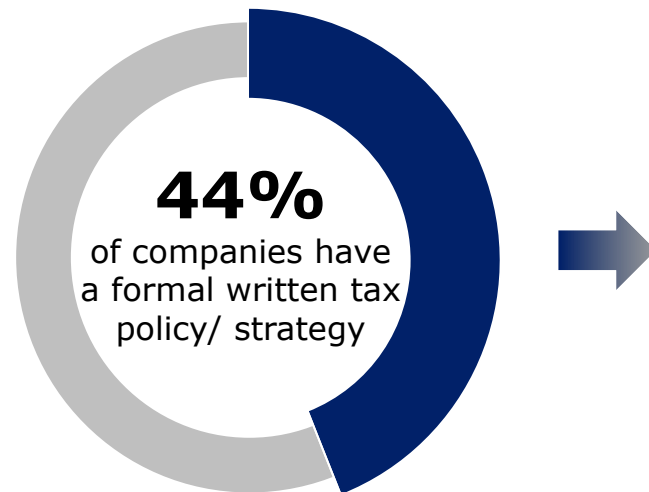
- Clients have mostly decided on their approach - split fairly evenly between 'Top Down' and 'Bottom Up'.
 - Top down approach - most likely for clients operating a method 3 model and/or operating in 30+ markets.
 - Predominant reason for the approach taken is access to and quality of data.
 - 75% of clients will reconcile their CbC reporting with at least some local country filings. 25% say they won't reconcile at all.

Governance

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Governance - tax policy or strategy

Formal written tax policy in place setting out governance standards?



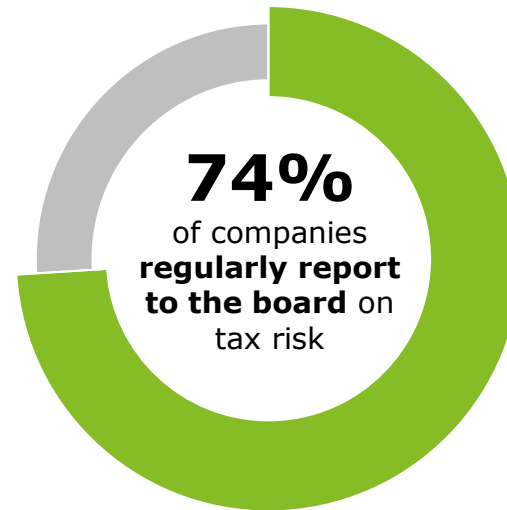
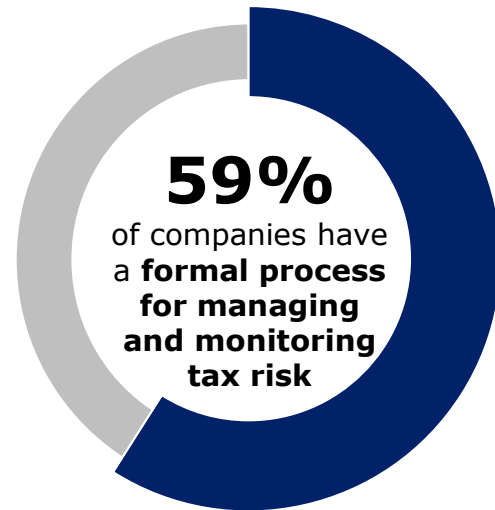
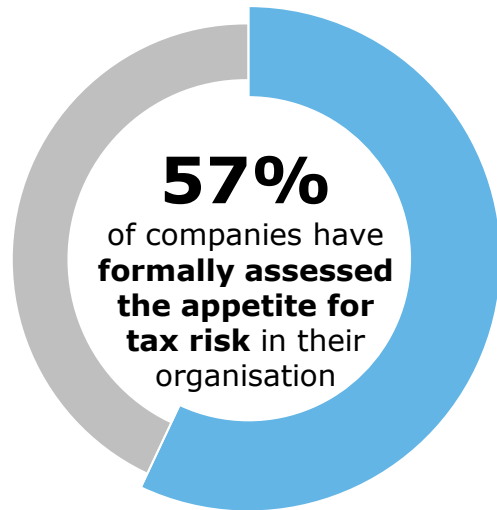
Among the total sample:

- 17% - Policy has been signed off by board, turned into an operational plan and there is confidence in its adherence
- 22% - Policy has been turned into a plan and have confidence in its adherence

- MNCs operating a method 3 are more likely to have a formal written tax policy in place - although no more likely to have this signed off by the board or turned into a plan.
- Governance processes are most likely to be in place in companies operating in more markets and in Europe (the UK in particular – 78% have a formal tax policy).

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Governance – risk management



- 36% have formally assessed appetite for risk, have a formal process for managing and regularly report to the board.

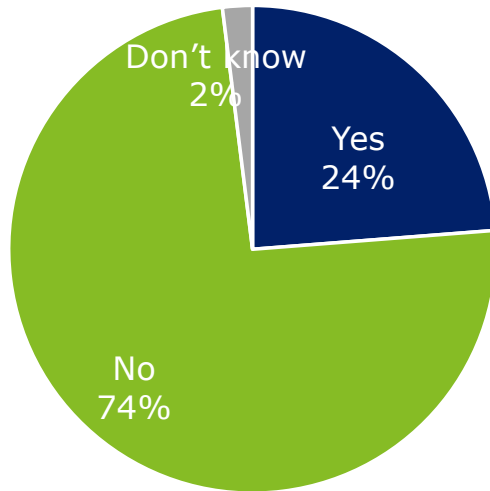
- 12% have not formally assessed appetite for risk, do not have a formal process for and do not regularly report to the board.

Technology

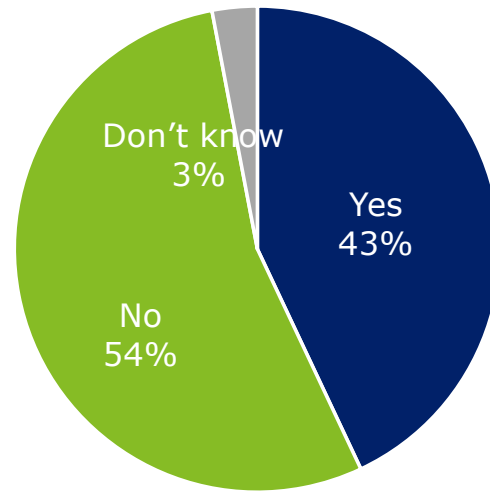
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Technology

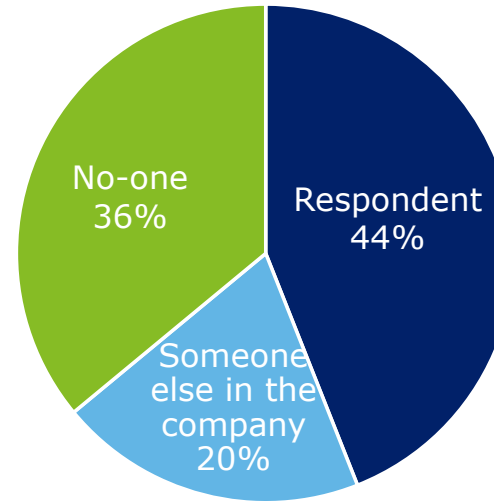
Formal plan in place



Budget assigned



Individual with overall responsibility



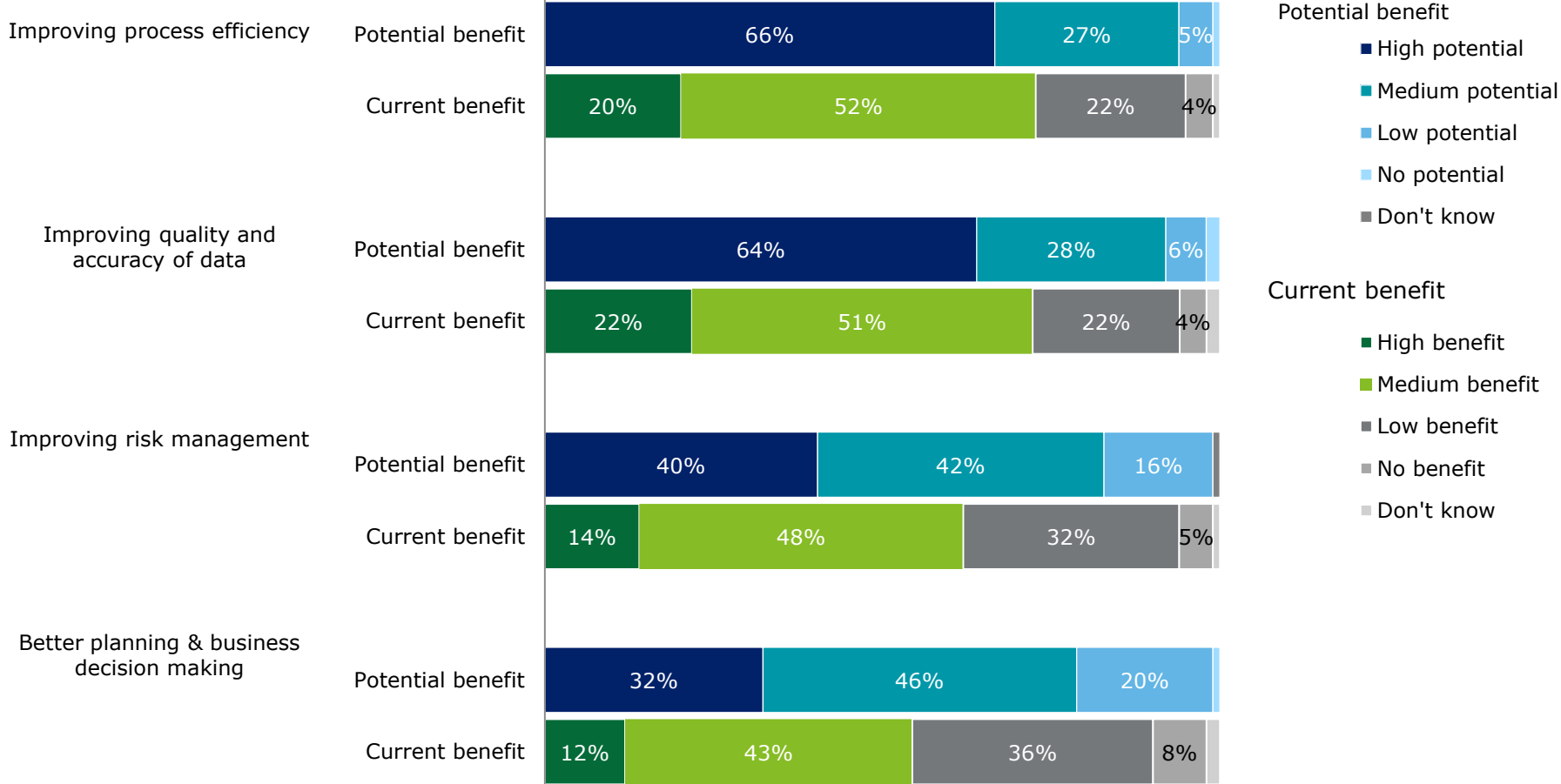
- **12%** have a formal plan, someone with responsibility and an appropriate budget.

- **24%** do not have a formal plan, anyone responsible or an appropriate budget.

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Technology – potential benefits

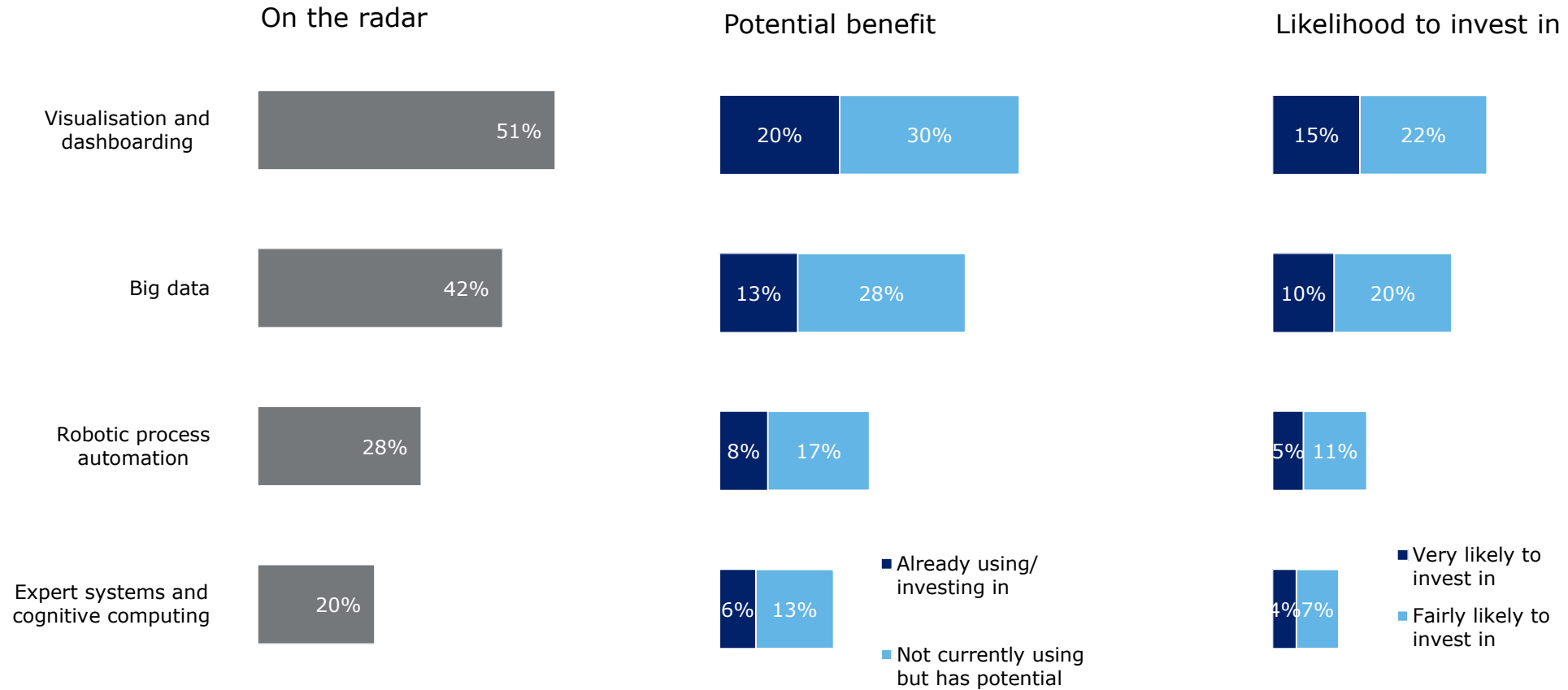
Potential versus current benefits of tax technology



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Technology – potential benefits

Interest in emerging tax technologies



Visualisation/dashboarding and big data are the technology areas seen to have the most potential benefit

Robotic process automation and expert systems & cognitive computing remain more niche

Summary

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Summary

Overall burden



Burden on tax teams has increased
Many departments struggle to cope with the immediate and urgent

Declining satisfaction



Overall satisfaction with existing operating models has declined dramatically
Method 1 continue to face challenges to achieve control and efficiency
However, MNCs with method 3 TOMs have become much less satisfied

Search for efficiency



Process efficiency is seen as a way to cope better with an increasing workload
It feels somewhat elusive but is seen as increasingly important going forward

Technology



Technology is seen as able to help in improving data quality and efficiency.
The emerging areas with the most promise are visualisation, dash-boarding and Big Data.



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