Deloitte.

Global tax compliance and reporting
Current insight and future trends

July 2013

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Understanding a changing environment

A brief history

Over the last 10 to 15 years, the tax compliance and reporting landscape faced by large, complex, multinational companies has shifted dramatically.

Global regulatory pressures have grown, with ever more stringent and onerous reporting requirements being placed on international businesses. Revenue authorities around the world have transformed, adopting a more commercial and sophisticated approach. In an effort to maximize receipts and improve anti-avoidance measures, the same authorities have focused on transparency and shown an appetite for greater cross-border collaboration. And in the wake of the global financial crisis, the reputation of corporate taxpayers has come under the microscope.

In addition, technology has been playing an ever increasing role. Mandatory electronic filing of tax returns is being introduced globally, while system-based audits and other technology-driven initiatives have also had a growing impact. These pressures, combined with the inevitable commercial drivers inherent in globalization, have been driving a growing demand from large multinational companies for more efficient and effective global solutions to a range of tax compliance and reporting challenges.

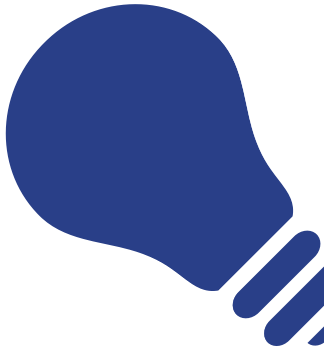
More and more, these companies have been demanding centrally-managed, single source, multi-country, integrated services to address the complex process of meeting their various tax and statutory reporting obligations around the world.

Unprecedented market insight

We realized that only through a deeper understanding of the landscape could we respond adequately to changing client needs, so in 2010, we commissioned a comprehensive, independently-conducted research study that surveyed a representative sample of the largest multinational businesses across the globe.

The research encompassed structured interviews with over 250 global tax decision makers. It provided an unrivalled source of insight from which we could assess business drivers, needs and demands – and respond accordingly.

A comprehensive, independently conducted research study that surveyed the largest multinational businesses from across the globe.



Updating our view

Since 2010, the environment has continued to develop and evolve. Our client experience tells us that demand for global tax compliance and reporting services is rising every year. The pressures that we saw in 2010 have grown and become more complex. In addition, more and more multinational companies have become alert to these challenges.

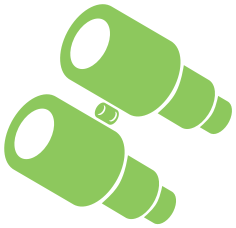
In turn, as Deloitte and other providers have developed their compliance and reporting solutions, businesses have become more aware of the possibilities that a global perspective and centralized approach present.

With this in mind, we felt it essential to look beyond our day-to-day experiences and 'take the pulse' once again, so we undertook a new piece of global research to the same specifications as our 2010 study. The field work took place during the final quarter of 2012 and analysis was completed in January 2013.

This report looks at our research studies past and present – as well as key insights gleaned from our direct marketplace experience – highlighting the most important findings, reflecting on developments and extrapolating our thinking on future direction.

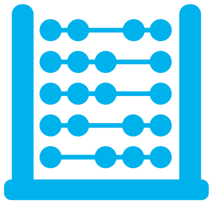
Global research methodology

An objective and independent view



- Conducted by a leading global research provider under the Market Research Society code of conduct

A deep understanding of market needs



- Global tax decision makers from 250 multinational companies surveyed
- 25 minute structured interviews, conducted in English or local country language, as appropriate

A broad, global perspective

- Sample drawn from a comprehensive list of the 6,000 largest multinational companies
- Respondents operate in more than 5 countries (with representative samples spread across 5-9, 10-15, 16-30 & 30+ countries)
- Geographical spread of HQ locations representative of the market
- Representative spread of subsidiary locations with good coverage across all regions and countries
- Representative spread of industry sectors

Setting the context – 2010

The global research baseline

Before examining the latest research findings, by way of context it is useful to consider first the essential points distilled from our 2010 survey.

As a starting point, as we saw multinational companies starting to bundle their service requests, we decided to define clearly what we meant by 'global tax compliance and reporting'. Our definition encompasses the most commonly requested processes and covers the control, production and filing of:

- Corporate income tax returns
- Indirect tax returns
- Statutory accounts
- Local and global consolidated tax provision

Throughout this report, whenever we refer to tax compliance and reporting, we are referring to a combination of these four processes. Throughout all our research, we have clearly explained this definition to participants to ensure clarity and consistency of response at all times.

Commercial objectives

Understanding that commercial drivers would provide the biggest likely impetus for action, we asked global tax directors about their principal commercial objectives. The vast majority cited effective tax rate (ETR) and risk management as key drivers. Surprisingly, especially given the economic backdrop, operational efficiency and cost reduction were deemed less important.

Tax compliance and reporting priorities

When it came to specific compliance and reporting priorities in 2010, the greatest emphasis was placed on quality and control, both of which were rated of higher importance than cost or process efficiency.

This qualitative emphasis was mirrored in tax directors' future focus too, with 50% stating that managing changes in regulation and tax law would be their main compliance priority over the next three years.

Flexible resourcing

In 2010, resourcing of global tax functions varied significantly. It was clear that outside the headquarter location there were often variable levels of in-house tax expertise. Operating and reporting structures had usually evolved rather than been designed. They were largely determined by a mix of historical precedent, in-house tax expertise in each country, the approach of the local finance controllers and local relationships with external tax advisors.

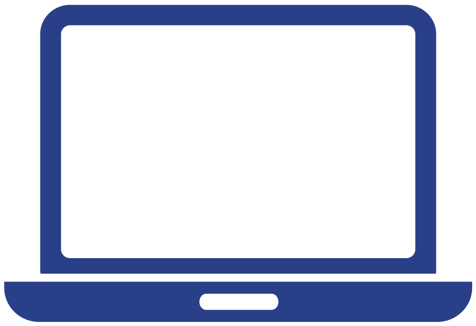
Consequently, as group tax directors sought to assert more control over tax compliance and reporting globally, it was clear that getting the right expertise in place was rarely a straight choice between in-house delivery or outsourcing. Instead, hybrid approaches prevailed, with a mix of internal and external resources deployed in a co-sourcing model that ensured sufficient tax expertise was in place at every stage of the process.

New ways of working

There was evidence in 2010 that, as part of the in-house management of global tax compliance and reporting, businesses were beginning to make use of their own shared service centers. 28% of respondents stated that some compliance and reporting work was carried out in their own centers.

When it came to technology, 87% of global tax directors believed they could do more with IT, but deeper questioning suggested many were daunted by new technology and wary of big implementations.

This reluctance was also more widely evident when it came to making major organizational changes. Typically, concerns related to the risks of disruption to the business. An ‘if it ain’t broke, don’t fix it’ mentality prevailed.



Outsourced delivery models

As discussed, outsourcing of all global tax compliance and reporting processes was relatively uncommon. Companies were far more likely to employ hybrid or co-sourced resourcing models in 2010 and when using external providers, there was a general preference for expertise delivered at a local level.

When asked whether they felt providers using service centers or using local teams worked better, 75% of tax directors expressed a preference for local teams. These concerns largely stemmed from a perception that 'on the ground' tax expertise was essential to the process.

Companies were far more likely to employ hybrid or co-sourced resourcing models in 2010 and when using external providers, there was a general preference for expertise delivered at a local level.

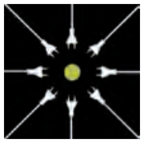
Six major themes

In 2010, analysis of our global research concluded that business needs for tax compliance and reporting generally clustered around six key themes. These continue to be apparent today:

Collaboration

Global tax directors want to assert greater control and improve quality. To do so, they need optimal expertise at the HQ level and in every operating country. This invariably requires a mix of internal and external resources, so the concept of co-sourcing and seamless collaboration with external providers is a pragmatic and appealing answer.

Integration



In any co-sourcing model, companies require a degree of integration, whether between systems, to ensure smooth and accurate data flows, or between teams of people or service centers connected to the process around the world. And, with expected developments in e-filing, even integration with local revenue authority systems might be needed.

Efficiency

While cost is a lesser priority than quality and control, companies continue to expect the efficiencies of global scale. They also want the best value for their money from their own tax people, rather than tying them up with manual compliance tasks. There is also a general tendency to see process automation and technology as a route to greater efficiency.

Confidence

The benchmark need is confidence that compliance and reporting are done right and on time. Many express concerns around a lack of visibility across global operations. Some state their biggest risk is not knowing what they don't know. With regulation and a more robust approach from revenue authorities, most feel risk is increasing.

Improvement

Global companies express a clear desire to improve their compliance and reporting delivery models but at the same time they remain wary of the risks involved in making big changes. They want to establish a clear rationale for change and need to see transition or transformation mapped out clearly, in an incremental and manageable way.

Insight

Our research shows that tax efficiency and ETR are the main commercial priorities and performance indicators for most global tax directors. Some are beginning to see that developments in data analytics provide an opportunity to use the compliance process as a platform to leverage tax data and generate greater business value.

Operating models

A continuum of sophistication

Analysis of our research findings from 2010 and our most recent survey shows that when it comes to tax compliance and reporting operating models, global companies do not clearly segment on traditional lines such as industry or geography. Instead, we see them spread along a 'continuum of sophistication'.

At the more 'traditional' end of this continuum, we still find that nearly half of major multinationals remain highly devolved, with local country finance teams often taking responsibility for tax compliance and reporting on a country by country basis. They rely on a resourcing mix of their own people and different external service providers in each country to support their processes. These companies have typically shown a nervousness towards change, although our latest research does suggest this has eased since 2010 and we expect it will continue to do so over the coming years.

At the other end of the continuum, a 'progressive' minority of highly centralized organizations have embraced shared services and 'offshore' resourcing models in low cost locations, whether through their own resources, outsourced resources or a combination of both. They show a high degree of technology enablement and display a tangible appetite for innovative thinking and new ways of working.

Between these poles are a variety of different models that combine central and local features. The strongest initial impetus on the journey towards centralization appears to be the desire to establish greater global control and visibility, thus providing more confidence in the process and its outputs. This is consistent with our previous finding that quality and control are the most important drivers for tax compliance and reporting.

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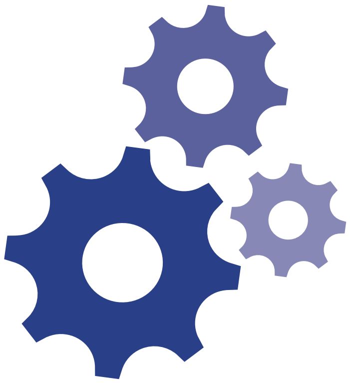
Operating models

Along this continuum of sophistication, we find that operating models cluster into three groupings, based on the degree of centralized management and processing in place. Broadly speaking, these can be characterized by one of the following 'methods':

'Method 1' is a decentralized model where compliance and reporting work is undertaken locally with little global oversight or visibility. Some companies operate a method 1 model because there is little or no central decision making around tax compliance and reporting. Our latest research suggests this segment represents 33% of major multinationals. A further 13% do make some tax decisions globally but have chosen to retain a method 1 model. Within this segment 58% of a company's tax staff are typically based at the global HQ location, with the rest dispersed regionally or locally.

'Method 2' is a centrally coordinated model where compliance and reporting work is delivered locally, but is overseen and coordinated centrally (either internally or externally), giving more global control and visibility (although the degree of global governance varies within this category). We have seen a greater shift towards method 2 operating models over the last three years: our latest research suggests that 42% of companies now operate some form of this model, with 64% of their tax staff based at the global HQ.

'Method 3' is a mostly centralized model where the management and delivery of tax compliance and reporting work is largely carried out from a centralized location via a company's own service centers, external provider service centers or a combination of the two. Even within the range of method 3 models, a degree of local support still exists though: on average, 20% of tax staff remain in regional or local operations away from the HQ.



Regional variations

There are significant regional variations in the continuum. Today, companies headquartered in the Americas tend to be more centralized than average. This is especially so in the United States where only 9% operate method 1 models, 71% are classified as method 2 and 20% are method 3.

In clear contrast, Asia Pacific headquartered companies are typically less centralized at present, with more responsibility devolved to a local level. Only 26% of multinationals headquartered in Asia Pacific currently operate method 2 or 3 models although, as we will discuss later, the future points towards greater centralization across all regions.

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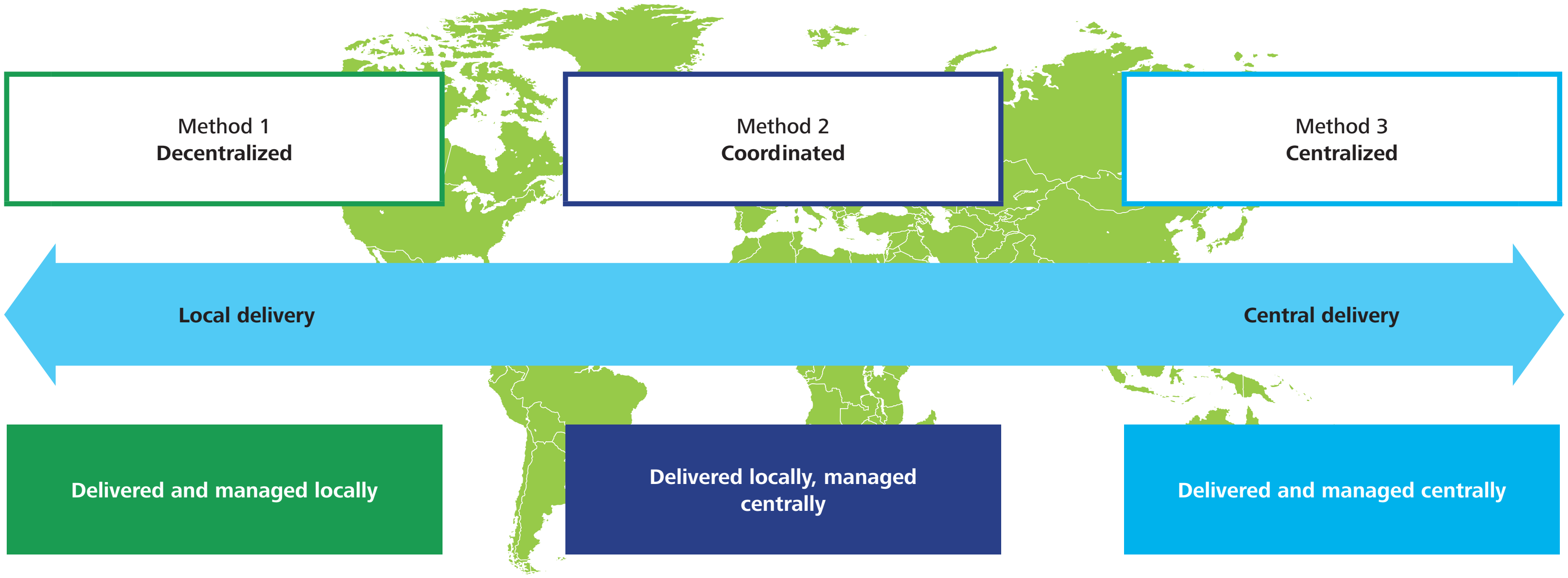
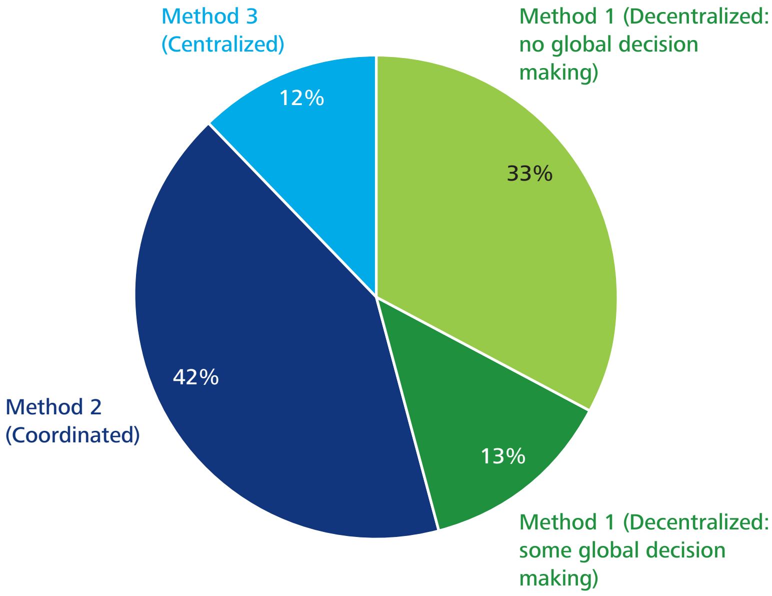
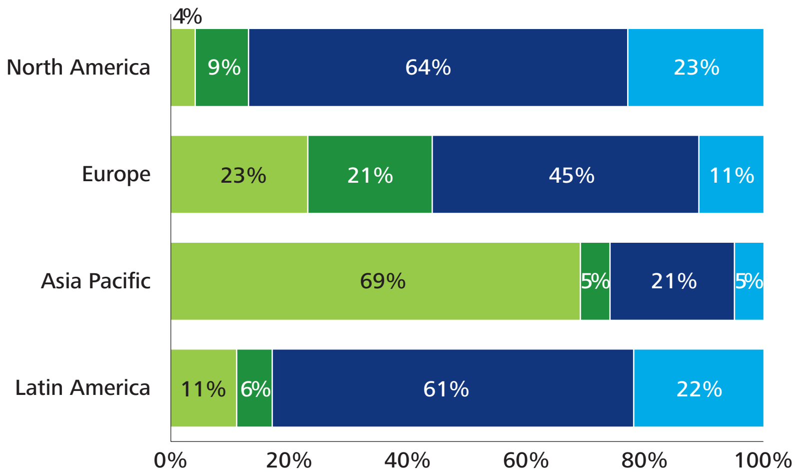
Global operating models: a continuum of sophistication



Current operating models

Q. Which model comes closest to describing the way you manage tax compliance and reporting?





Current thinking – 2013

Getting the basics right

As with our 2010 study, our latest research continues to show clearly that the highest priorities for global tax directors are focused on quality (87% now rate this as a high priority) and control (74%).

As we explore this in more qualitative terms, we find that their baseline need is confidence in the process of delivering and filing tax returns and statutory reports on a global basis. To achieve this, they want real time visibility over their global operations and assurance that everything is being done correctly and delivered or filed on time.

Managing uncertainty

What is striking about our latest findings is that cost remains so far down the overall priority list. Indeed, it has moved further down the list since 2010. It seems that, in the minds of tax directors, the perceived risks and costs of getting compliance wrong often weigh heavier than the cost of getting it right.

Certainly, the fact that managing changes in regulation or tax laws is still cited as having the greatest influence on the future organization and management of compliance and reporting suggests that tax directors remain concerned about growing complexity in this area.

As discussed already, demands for greater data transparency from revenue authorities through initiatives such as e-filing, coupled with moves towards greater cross-border collaboration, are clearly exercising the minds of those responsible for tax within large global corporations.

Our qualitative assessment also suggests that the emphasis on quality and control is further exacerbated by more recent pressures on global corporations to be seen as ‘good’ taxpayers around the world, as part of their publicly perceived social responsibility.

External support

As companies move towards more centralized method 2 or 3 operating models, we usually see a corresponding growth in their demand for external assistance, either in the form of process and technology consulting services or the outsourced delivery of compliance and reporting functions.

The use of workflow technology, either in-house or by external providers, is often the starting point, with this seen as the first step to tracking progress and deadlines, thereby establishing more control and visibility over the process.

Interestingly though, our latest findings suggest that companies are less concerned about the specific choice of technology deployed. It is what technology is perceived to deliver, in terms of results and benefits, that remains more important.

Consistent delivery

When it comes to the role of people and expertise in the process, it is clear that, as in 2010, the preferred model is a mixture of internal and external resources, largely predicated on what the company already has in place around its global operations.

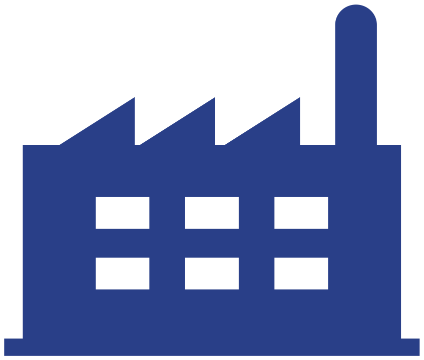
This is often demonstrated by a greater degree of in-house management at the HQ location and more use of external providers to support local country operations. Essentially, the primary drivers are about achieving a consistent degree of tax expertise across all operating locations and keeping up with the local regulatory regime.

> "We have varying degrees of tax expertise around the world and we need external providers to fill the gaps."
>
> Anonymous, Tax Director

Regional emphasis

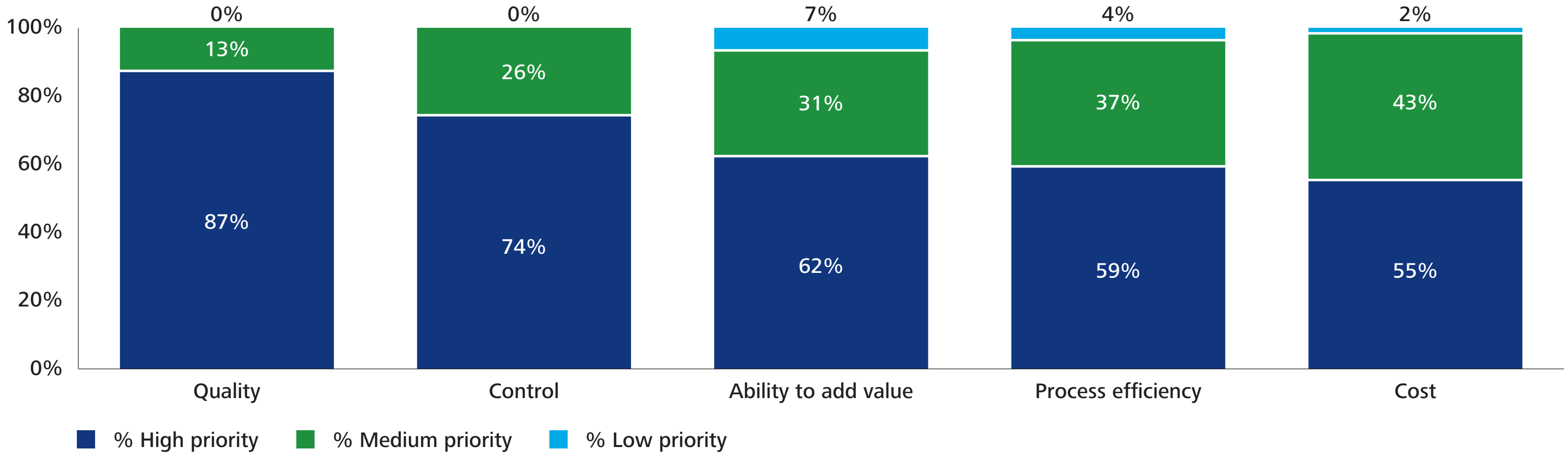
In the case of US or European headquartered multinationals, we see a particular emphasis for external support emanating from their further flung operations, especially in Asia Pacific. This is often driven by the growth of their business into new markets (and a corresponding lack of local tax experience) or by the need to integrate new business acquisitions in emerging markets.

Coupled with a growing focus on global compliance processes from Asia Pacific headquartered companies, this region is fast becoming key to successful compliance and reporting delivery for all global businesses.



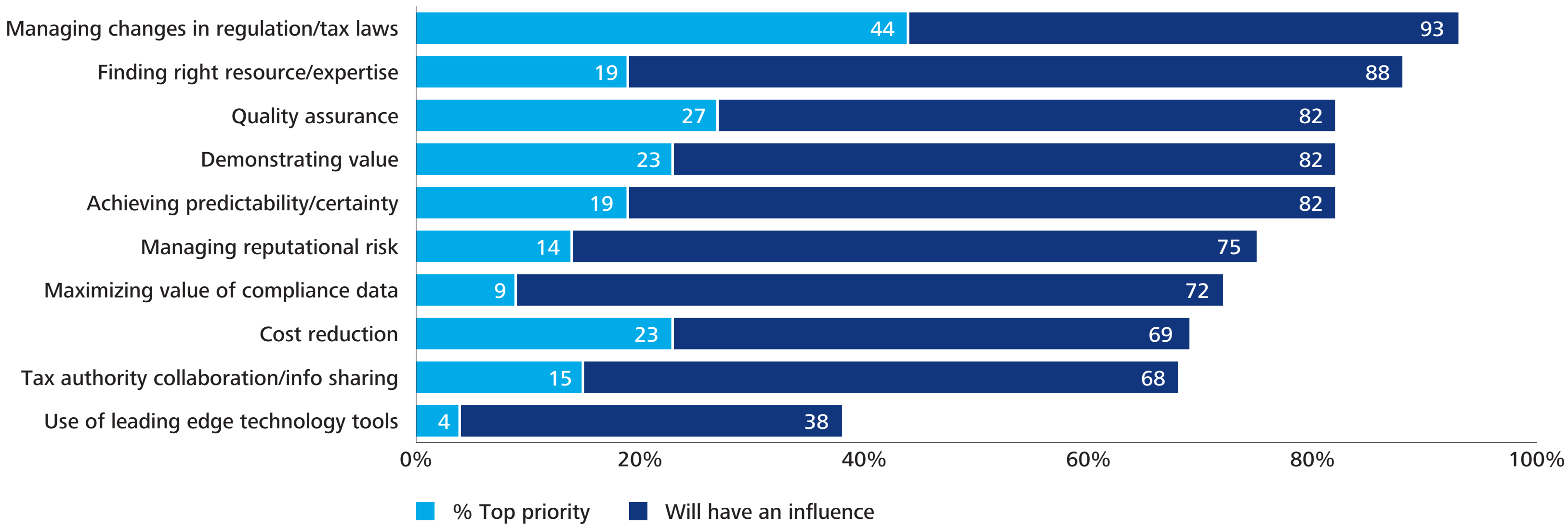
Relative importance of tax compliance and reporting drivers

Q. For each of the following factors, please indicate whether it is of high, medium or relatively low importance as a driver for your business



Future influences on management of tax compliance and reporting

Q. For each of these factors, could you tell me whether you think it will influence the way you organize and manage global compliance and reporting over the next three years. Which two are likely to be your top priorities?



Making compliance easy

A clear development is the growing importance of process efficiency. Although still only ranked 4th in overall importance, the number of global tax directors who rated process efficiency of high importance has increased by 13% since 2010.

By contrast, when asked about satisfaction with their current model, process efficiency is the area that decision makers now seem least happy with: only 45% of our latest survey sample stated they were happy with this aspect of their current model.

Process efficiency is also mentioned frequently in qualitative terms. Language such as 'standardized methodologies', 'consistent processes', 'error reduction', 'faster delivery' and 'greater simplicity' has become more common currency in our latest interviews with global tax directors.

Indeed, the last phase seems to summarize a growing sentiment within global tax departments, of the need to reduce complexity and ultimately, make global compliance simpler.

Internal drivers

Process efficiency and greater simplicity also correspond with a stated desire to make better use of in-house resources by taking them away from manual compliance tasks and refocusing them on higher value work and greater engagement with the rest of the business.

Another influence on tax directors' thinking emanates from the wider theme of finance transformation. More and more we either see pressure being exerted by CFOs on tax departments to embrace this or tax directors anticipating this pressure and proactively looking at process efficiency within their function.

More and more we see tax directors proactively looking at process efficiency in their function.

Demand for new skills

As the emphasis on process efficiency grows, this has a direct impact on the demands that global companies make of external providers. Where an organization's objectives are driven by a desire to transform their tax compliance model, inherent in this is the belief that centralization and automation will provide a natural route to process efficiency. It is symbolic that 71% of companies operating a method 3 model now rate process efficiency of high importance versus 59% across the whole survey sample.

Increasingly, it is incumbent on external providers to demonstrate expertise and show the way. This requires a range of skills that stretch beyond tax to cover technology implementation, data management, process re-engineering and even change management.

By the same token, global tax compliance outsourcing is often used as an agent for transformation, as well as a direct means of consolidating multiple compliance processes. This is evidenced by outsource service requests increasingly bundling the services within scope: 35% of supplier tenders or reviews now cover multiple processes with an average of 2.5 services being bundled.

> "As we harness technology we will reallocate resources, so that more people are supporting our business units, and less people are doing compliance work."
>
> Anonymous, Tax Director

Procurement sophistication

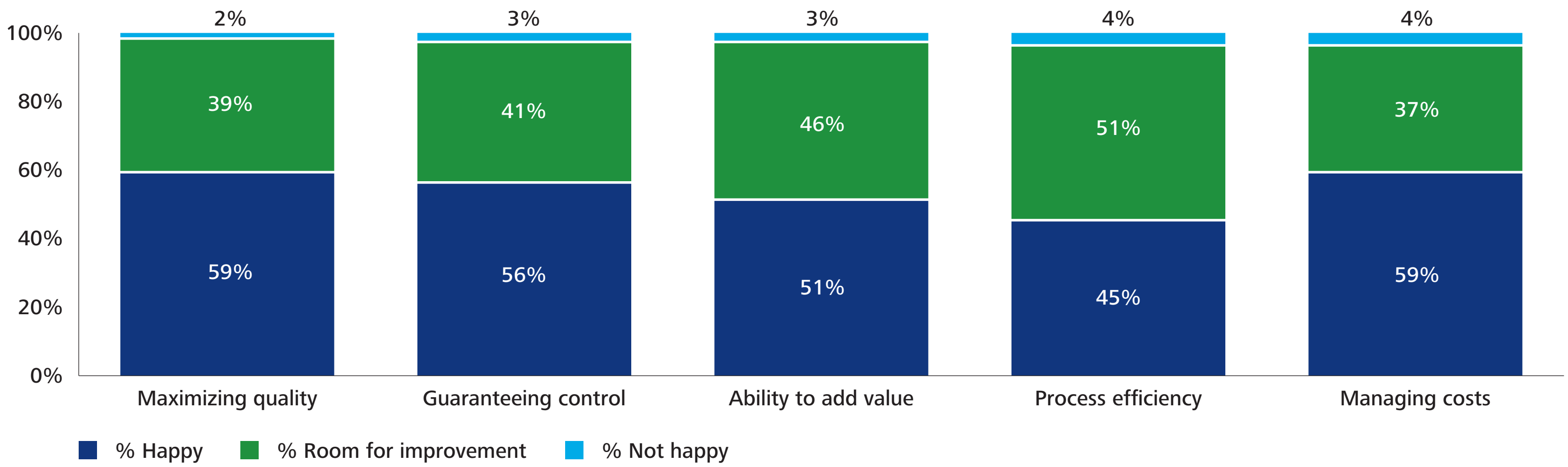
Beyond simply bundling services though, today's compliance and reporting landscape sees an increasing level of procurement sophistication. As global compliance and reporting challenges grow, so too do the expectations and demands that multinational companies place on external providers. Their focus is on desired outcomes rather than preconceived models and the onus is on providers to recommend solutions and deliver these via a detailed and clearly explained roadmap.

This is further evidenced by the nature of supplier reviews conducted by companies. In 2010 we saw the vast majority of these were in essence informal checks on price and service. Often these were dispersed to a local level, consistent with the prevalence of method 1 operating models. Only an estimated 10% of supplier reviews were conducted as formal global RFPs or tender exercises.

Today, we see around 25% of reviews taking this more structured form. We also see more frequent review cycles and less ad-hoc procurement.

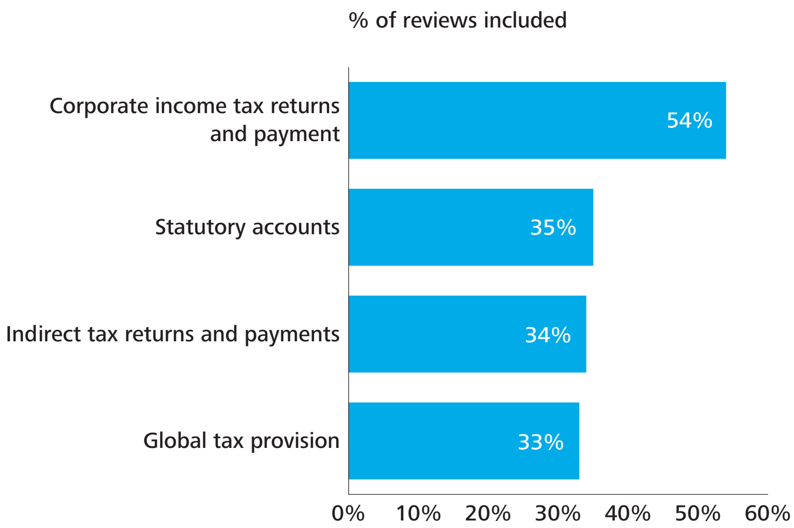
Satisfaction with current operating model

Q. How satisfied are you with your current model in terms of each of the following areas?



Processes included in reviews of global suppliers

Q. Which of these four areas would your organization go out to tender or supplier review for? Which, if any, of these areas would your organization bundle in one tender or supplier review? If you have one or more global providers of compliance and reporting services are they more likely than other providers to be awarded additional tax advisory work?



- 35% of reviews bundle some of these processes together
- On average 2.5 services are bundled together
- 27% of reviews also bundle some tax advisory or additional tax work with compliance

From transition to transformation

An appetite for change

As discussed in earlier sections, businesses have historically displayed a high degree of disinclination to change their compliance and reporting arrangements. While a theoretical desire to improve was often evident, so too was a reluctance to implement major change. Our most recent survey suggests, however, that this dynamic is changing.

Not only are global tax directors less happy with their existing compliance and reporting models, they are now showing a greater appetite for change. In our survey, 45% of those who only expressed happiness in one or two measures also said they planned to change their compliance and reporting operating model in the next three years.

Satisfaction appears to increase as companies move to methods 2 and 3. Moreover, our research suggests there will be significant future movement away from method 1. With this movement, we are also likely to see increased outsourcing in regions such as Asia Pacific, with 44% of companies surveyed there expecting to outsource more over the next three years.

Increasing centralization

As global companies evolve their approach to tax compliance and reporting, they appear to be driven firstly by a desire to establish more control through method 2 models and then, as they move towards method 3, shift emphasis to greater process efficiency. As this movement takes place, companies often look to outsourcing as an initial means of delivery, and we are seeing greater acceptance of certain aspects of centralized delivery.

In the past, we have seen skepticism about the benefits offered by providers' central service centers, fearing a loss of local knowledge and expertise. Today this has changed, with 44% of companies stating that a providers' central service center would make a model more attractive.

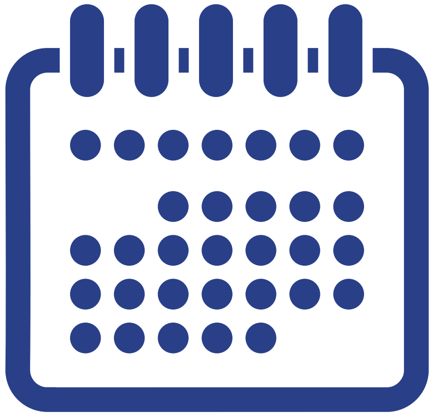
They cited benefits consistent with a desire to simplify compliance, such as a single point of contact, speed and efficiency. Moreover, increased expertise and knowledge were also cited as benefits of using external service centers. Only 26% stated that a central service center would make a solution less attractive, with some concerns over loss of local knowledge remaining.

‘Out of the box’ *and* tailored

As we have already observed in this report, any business seeking to improve its global tax compliance and reporting model will likely make a journey along what we call the ‘continuum of sophistication’.

Initially, as they seek to assert greater control and improve quality, they will look to implement standard and consistent global processes. This naturally leads to a greater centralization of process delivery and the opportunity to realize cost and efficiency savings through better use of technology and process automation. Then, as data is collected and aggregated, companies look to leverage that data and use compliance as a platform to deliver greater value to the business.

When described in these simple terms, it sounds like a very smooth process. Indeed, as companies embark upon this journey they reasonably expect that others will have gone before them and believe that an ‘out of the box’ solution must be available. To a degree, this is true. Via standard currently offered outsourcing models, relative improvements in global compliance delivery can be made. In practice, navigating the organizational and technological complexities of a large multinational business requires a subtle, tailored and sometimes unique approach.



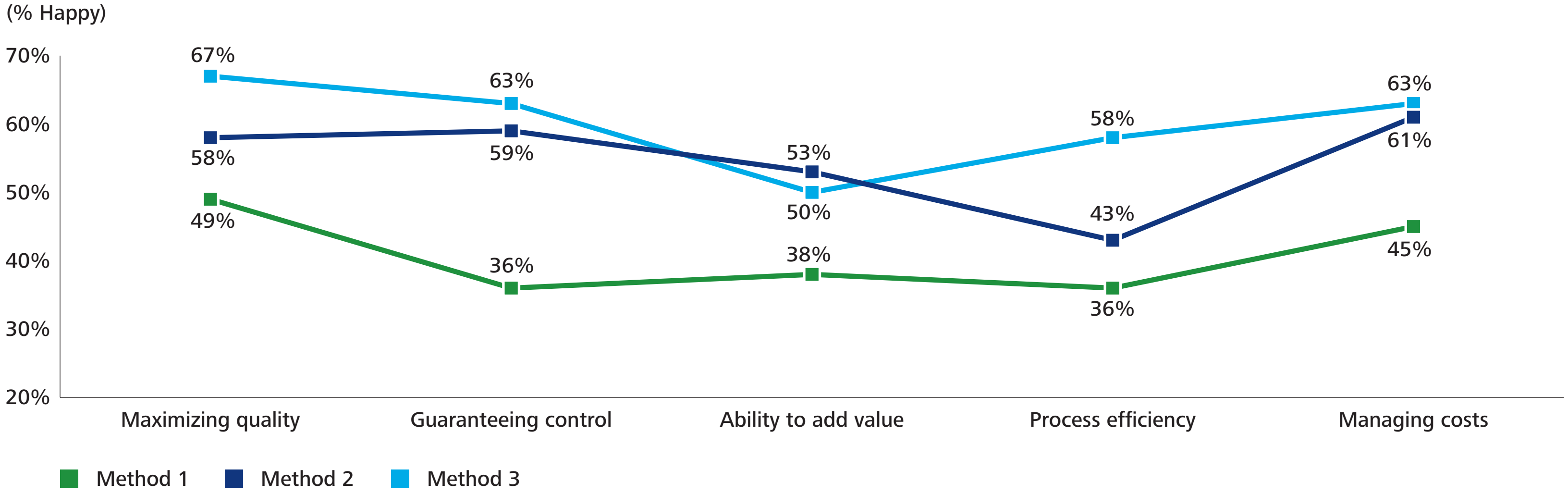
Navigating the organizational and technological complexities of a large multinational business requires a subtle, tailored and sometimes unique approach.

The range of scenarios varies enormously, whether it be the specific organization of a company's finance and tax functions, the variety of interested stakeholders around the world, the nature of global ERP infrastructure and the accessibility of data, the organizational culture of the business, or the specific commercial and organizational goals for the tax department and the wider business … The list goes on.

A useful analogy might be that of an engine. It is certainly possible to design a very efficient engine but to make it work well for every type of vehicle, there will be a number of very specific adaptations and modifications that must be made for each model. As with the engine, an 'out of the box' global compliance and reporting solution might provide a good starting point, but ultimately, a high degree of tailoring is likely to be needed to deliver and sustain more transformational goals.

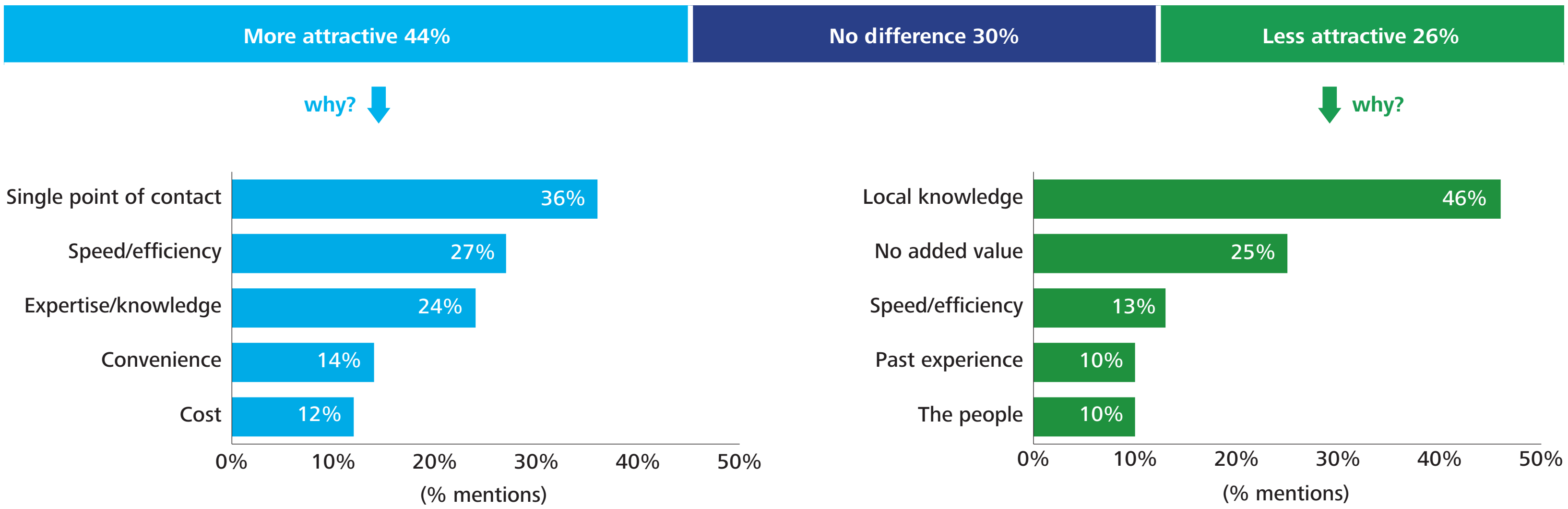
Satisfaction with operating model by method

Q. How satisfied are you with your current model in terms of each of the following areas?



Attractiveness of central service centers as part of an outsourced offering

Q. If a central service center was offered by a provider as part of a global compliance and reporting proposal, would this make the bid more or less attractive to you? What are your reasons for this?



A focus on value

In our survey, global tax directors continue to tell us that their primary commercial driver is the effective tax rate (ETR) and this is the primary measure on which the business evaluates them.

As their approach to managing compliance and reporting is transformed, some tax directors are becoming increasingly alert to the potential that exists to leverage consolidated compliance data and extract greater value. This complements the likely longer term shift away from the substantive production of traditional tax returns to a more systems-based approach, encouraged by those revenue authorities moving to more sophisticated forms of e-filing. In countries such as Brazil, the e-filing requirements offer a comprehensive source of tax data which exponentially increases the potential for smart use of data analytics – by revenue authorities and taxpayers alike.

27% of tax directors include some form of tax advisory work with compliance supplier reviews and 66% say that their primary global compliance provider is more likely to be asked to undertake additional advisory tax work.

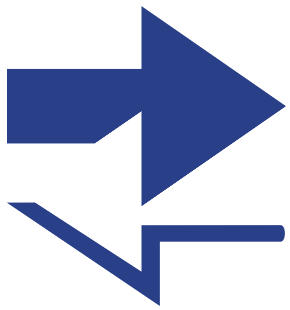
The fact that tax directors are more alive to this potential is illustrated by the growing connection made between tax compliance and tax strategy. 27% now bundle some form of tax advisory work with compliance in their supplier reviews and 66% suggest that their primary global compliance provider is more likely to be asked to undertake additional advisory tax work. Indeed, our qualitative discussions with global tax directors reveal a clear expectation that improvements to the compliance model will in time yield what some refer to as a 'strategy dividend': freeing up time to focus on supporting the business and meeting the tax department's other objectives.

It is intriguing to observe that happiness with 'ability to add value' is at its lowest within method 3 models. Further interrogation suggests a degree of frustration from more progressive companies that additional value is yet to be seen. Future success for these global tax directors is likely to be determined by whether or not a truly value-based compliance approach can be achieved with tangible delivery of the anticipated benefits. Indeed it appears that happiness with 'ability to add value' is at its lowest within method 3 models because this model should provide the most potential for leverage of centralized, multi-country data.

The role of outsourcing

The questions is, when it comes to helping companies achieve the most progressive compliance and reporting operating models, can external providers respond? Our most recent survey reconfirms something we observed in 2010: currently, large multinational companies see a general lack of supplier differentiation. When asked who they thought would win if they invited proposals tomorrow, 30% couldn’t pick a clear winner. Moreover, 42% could not say who they considered the leading provider of compliance and reporting services. It is instructive that in both cases, the majority of respondents did not attempt to rationalize their views by simply citing their incumbent provider as a likely winner or leader!

It is clear though that the ‘Big Four’ (Deloitte, EY, KPMG and PWC), as a group, are identified as the leaders. Nearly all global tax directors suggest that only these firms can currently deliver a solution on a global scale but that no single provider has yet managed to stand out from the others consistently.



The outsourcing journey

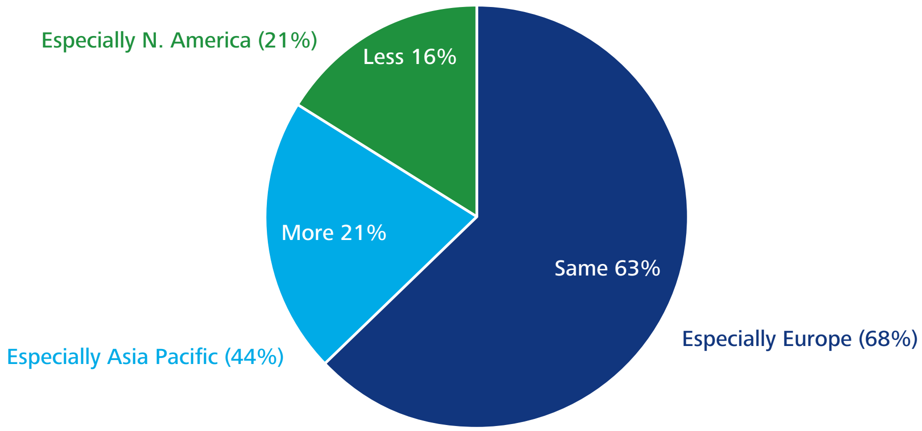
For external providers to help global companies tread a successful path towards a transformed compliance model, our research and our experience suggest there are some key ingredients required for success: firstly, it is important to identify all the stakeholders within every process and engage them from the outset; secondly, detailed planning and business case development, allied to a clearly articulated role for external resources, are very important; and finally, a clearly mapped path to improvement – and then transformation – is essential. This path must show all the stages of development in detail, clearly outlining roles and responsibilities, and how goals will be achieved and measured.

More and more, we see the most progressive global companies seeking an 'outsourcing journey' that does more than just provide an apparently robust delivery model. In addition, they are demanding the right business preparation, successful near term provision of a working delivery model and ultimately, transformation of their model in line with their commercial objectives.

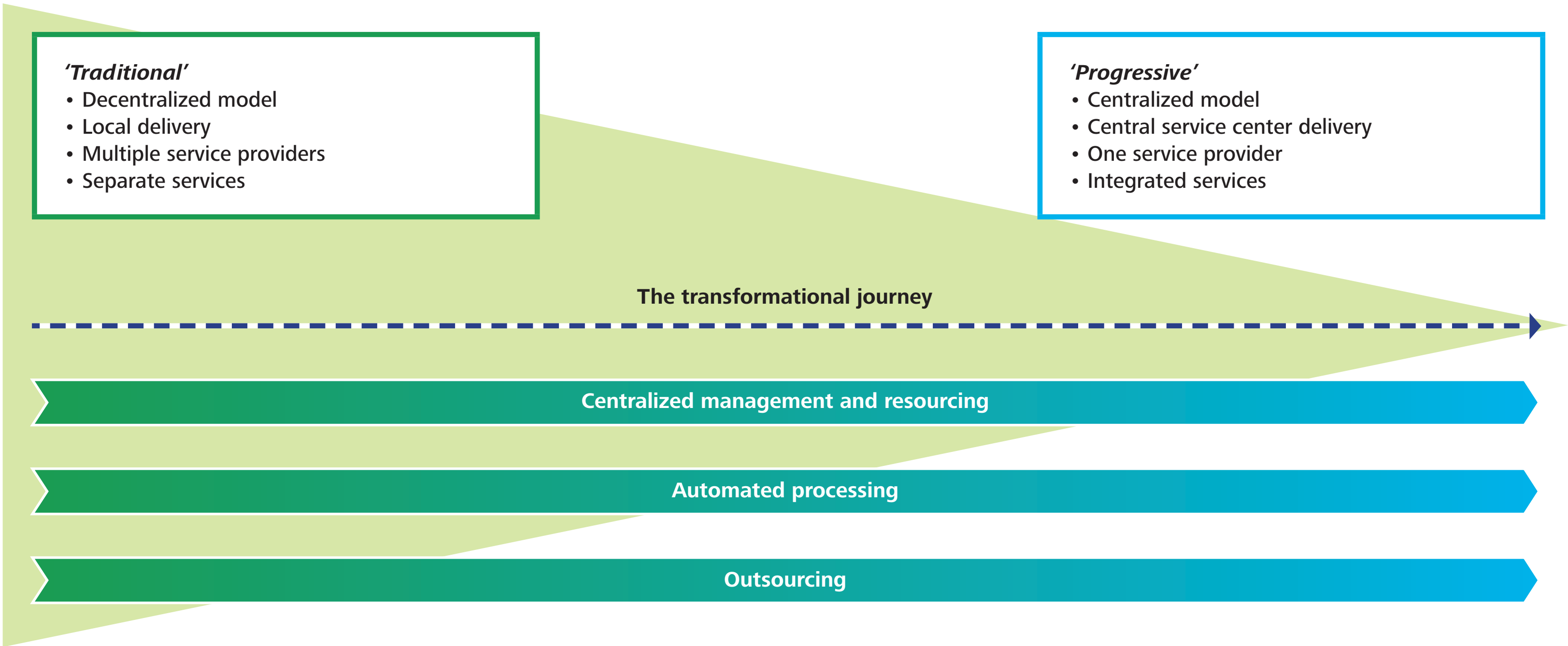
In delivering this, our research indicates that businesses want providers to manage the uncertainty and perceived risk entailed in taking the first steps. Providers must actively help to evolve and then transform the delivery model. And, by adding insight to the underlying compliance deliverables, they must help to deliver tangible business value in the long term.

Outsourcing expectations over the next three years

Q. In the next three years, do you anticipate outsourcing more or less of your global compliance and reporting work?



The continuum of sophistication: a compliance and reporting journey



Looking further ahead

Future insights

By bringing together the findings of our successive research surveys with a regularly gathered body of client feedback, this report provides insight into key trends in the global tax compliance and reporting sphere.

While this gives a good view of the current state, as well as highlighting the likely drivers and direction in the immediate future, what of the longer term picture? How will the global tax compliance and reporting environment change over the next five or ten years? How will the tax functions of large global companies respond and develop? What impact will changes have on the delivery of tax compliance and reporting? And how will external service providers fit into the future picture?

Revenue authority pressures

We anticipate that a changing legislative landscape, driven by global coordination on the part of governments, will mean ever more complex demands from revenue authorities around the world. This will remain central to the challenges presented to global tax directors in future years. Governments are under pressure to raise public revenues and attract business and they will use taxation to achieve these aims.

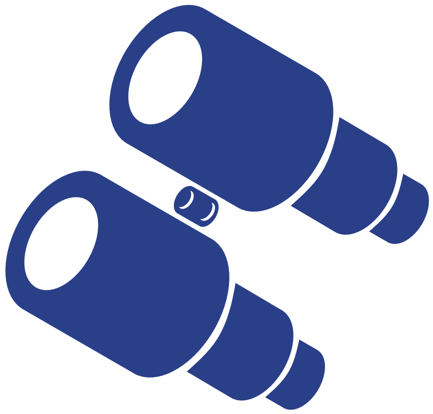
The degree of fiscal authority collaboration and cross-border financial data analysis is also likely to grow. The requirements for multinationals to demonstrate greater consistency and transparency in their reporting will increase. We might even see some consolidation of corporate tax regimes across countries or regions (such as the EU) and certainly a continued rigorous approach to transfer pricing.

Extreme automation

We also expect to see an era of 'extreme automation' follow the current trend towards e-filing. We have already seen signs of this in some jurisdictions where data in company systems is required to be held in visible and accessible formats for revenue authorities to extract or review.

Further forward, revenue authorities are likely to move away from requesting and holding vast quantities of data themselves. The tax return may disappear. Revenue authorities might become much leaner organizations. The responsibility could move to companies to self assess their tax liabilities and maintain data in formats allowing easy access and review. Alternatively, in the future, revenue authorities might simply publish protected software routines for taxpayers to run across data sets and file the results.

This will require a quantum leap in the transformation of companies' global financial systems and place greater emphasis on the tax sensitization of data at source. In this view of the future, rather than apply tax knowledge to financial data retrospectively to prepare a return, the onus will shift to the point of data entry, so that tax sensitized data is inherent within the normal transactional data residing in financial management systems.



In the future, revenue authorities might simply publish protected software routines for taxpayers to run across data sets and file the results.

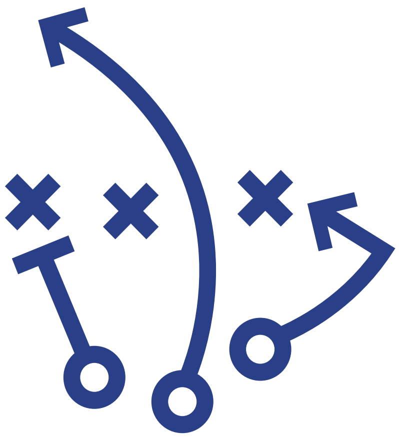
Resourcing in the future

Given the likely environmental changes, what will the resourcing impact be on both companies and providers? More and more, compliance and reporting processing work is expected to become automated, reporting on the tax sensitized data in ERP and other financial systems at source.

It is therefore likely that global tax department resourcing will remain relatively lean with a focus on retaining senior tax 'experts' at the global or regional HQ level. These professionals will work more closely with the finance function and engage actively with the wider business to demonstrate and deliver value.

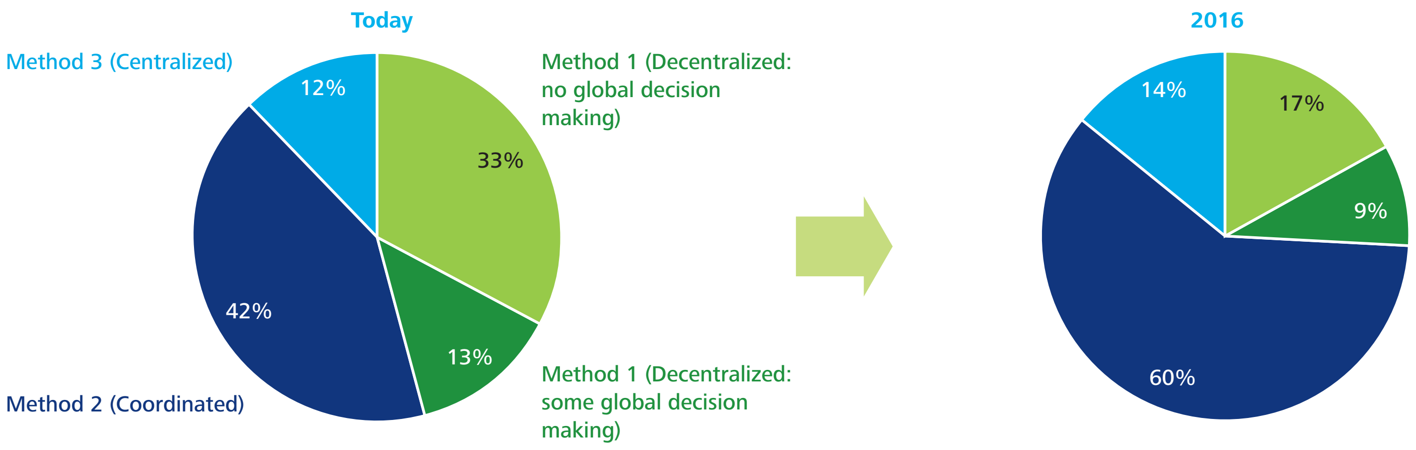
Additional and ad hoc resourcing requirements will most probably be fulfilled by flexible use of external providers, perhaps with greater use of secondees at the local country level, to supplement local finance teams with local expert tax knowledge.

The emphasis for service providers is also likely to change. As the tax sensitization of data becomes more pivotal, the present functions of niche tax software will converge with mainstream financial systems. This will require expert implementation and integration, so there might be greater involvement from technology consulting and implementation providers. This will also impact on integration with shared service centers, whether provided by in-house facilities or via external providers, so we might also see the growing involvement of traditional transactional finance outsourcing providers in tax compliance matters.

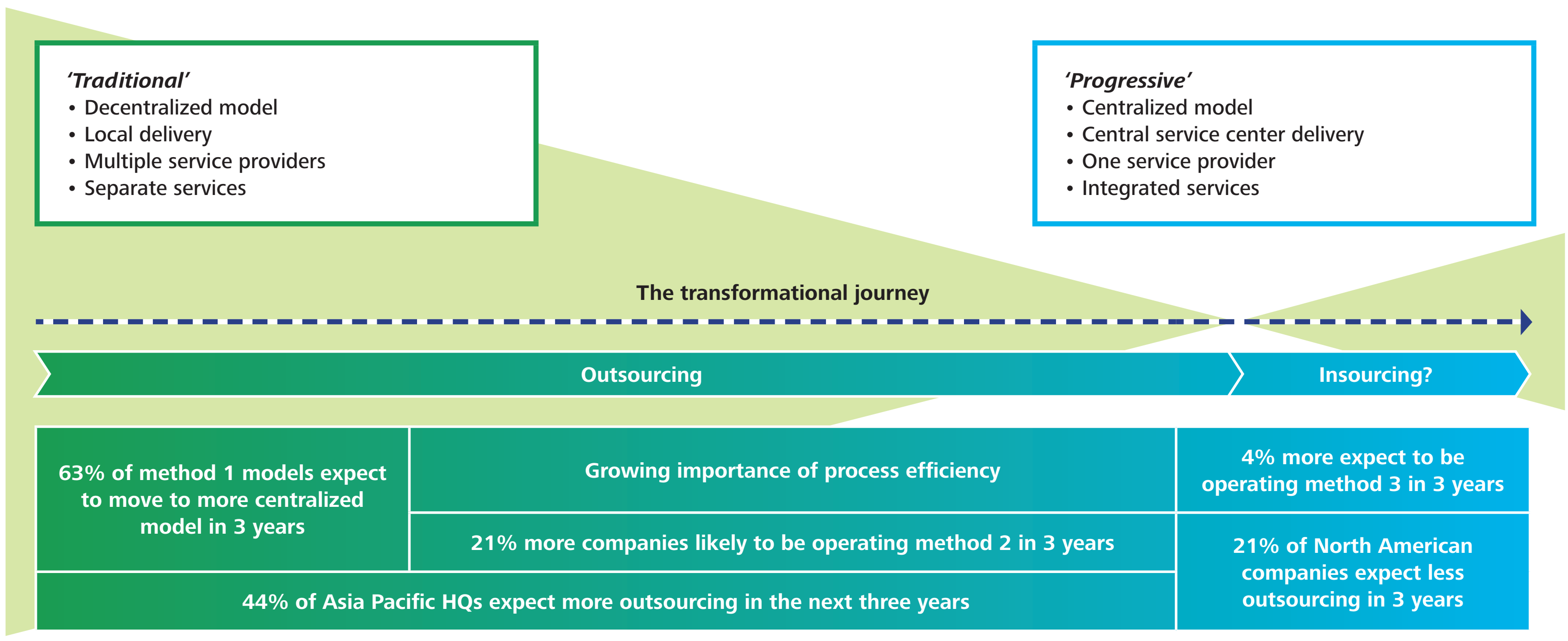


Future mix of operating models

Q. Which model comes closest to describing the way you manage tax compliance and reporting? Are you considering moving to a more central/global compliance and reporting model in the next three years?



The 'new' continuum of sophistication



Human resources

Despite the increasing role of integrated technology and automation, human resource will of course remain intrinsic to parts of the compliance and reporting process and the trend towards 'offshore' service centers will most likely gather pace as data and processes are standardized regionally and globally.

Current developments also suggest that greater use of low cost resource pools will be driven further by an increased sophistication in what we currently think of as 'emerging' markets. This will present itself both as a result of the demands that growing multinational companies will make in these regions (our research already suggests that one of the biggest shifts towards centralized models and more outsourcing is likely to be coming from Asia Pacific) and through the growing possibilities presented by more sophisticated and lower cost centralized resource pools around the world.

While India currently dominates, we expect parts of South East Asia and Africa to play a bigger future role, as the level and quantity of qualified expertise in these regions grows and the search for 'untapped' resource pools continues.

The 'new' continuum of sophistication

Previously, our view of the tip of the continuum of sophistication suggested that the most progressive companies would move to highly centralized, largely outsourced delivery models. However, we are already seeing signs that in the future, the most advanced multinationals will look beyond outsourcing as a catalyst for transforming their delivery model and move towards the era of extreme automation.

We expect to see this highly progressive minority reduce their demand for outsourcing as they bring standardized global processes back in house, make more intelligent use of technology and integrate more closely with their own finance functions, shared services and transactional finance systems.

As we have already implied, this is likely to change their requirements for tax compliance and reporting related services, as their need for process outsourcing is substituted for services relating to technology, process and risk management and the delivery of expert tax knowledge, through an appropriate blend of people and technology.

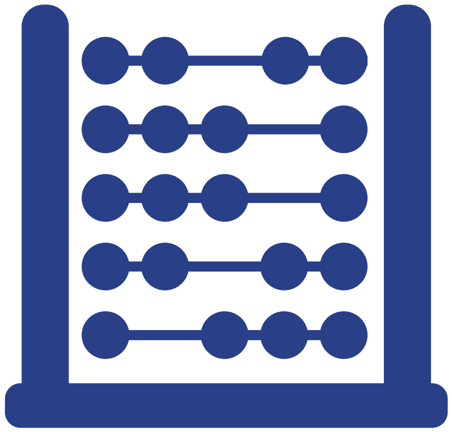
The value of insight

We expect the application of expert knowledge and the ability to deliver valuable insight to be increasingly key features of the tax department and its advisers in the future. As we have discussed, we have already begun to see companies anticipate additional benefits as they standardize processes and tax data globally. As organizations accumulate several years' worth of consistently formatted tax data, readily accessible and presented in easy intuitive formats, the options and opportunities for analysis become significant.

With the right systems and data in place, the use of sophisticated data analytics to perform searches for transaction coding errors, assess supply chain efficiency, identify high cash tax business units and run tax scenarios across global groups, will provide global tax directors and their teams with the power to uncover and deliver new sources of business value.

This availability of data comes at an opportune time for global tax directors. Growing concerns around corporate responsibility and the impact perceived tax behaviors can have on consumer attitudes means global transparency and access to information will become increasingly important.

As compliance becomes the starting point for generating value, rather than an end in itself, it is at this point that it becomes truly transformed.



Final thoughts

Through analysis of our global research and insights, we hope this report provides a clear picture of the features and trends currently evident in the tax compliance and reporting environment, as well as its possible future.

In concluding this report, it is important to observe that both today and in the future, the six market themes that we identified back in 2010 – Collaboration, Integration, Efficiency, Confidence, Improvement and Insight – remain highly pertinent.

Of course, these themes manifest themselves and impact individual company needs in different ways and at different points on what we have called the continuum of sophistication. Their emphasis and relative importance also vary along the continuum, but they remain largely consistent and ever present.

As organizations move along the continuum and improve their global operating models, we typically see their journey start with a focus on delivering confidence through better quality and control, by getting the basics right and making compliance simpler, more visible and more consistent around their worldwide operations.

As the journey progresses, tax directors develop a more ambitious vision of change and ultimately, transformation. In time, this shifts the emphasis from the tasks of completing and filing tax returns and statutory reports towards far greater integration with other global business operations and the development of a powerful data-driven platform that can generate greater efficiency and tangible commercial value.

Along this journey, our experience suggests that a clear and well conceived vision is essential. But importantly, this must be accompanied by a pragmatic and realistic roadmap that considers the unique organizational characteristics of a business, engages all stakeholders, navigates the potential obstacles and pitfalls inherent in change and finally, provides the wherewithal to make the vision a reality.

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