



The management of tax
Global research: a five
year study

June 2015



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A new benchmark

The changing landscape

Large, complex multinational companies (MNCs) have faced a myriad of pressures over the last 10 to 15 years and the challenges for those responsible for global tax management continue to change and grow.

An avalanche of global regulatory measures, from the US Sarbanes-Oxley Act in 2002 right through to the current Base Erosion and Profit Shifting (BEPS) action plan from the Organization for Economic Co-operation and Development (OECD), have had significant impact on global corporations' approach to the management of tax.

At the same time, changes in approach by revenue authorities around the world, increasing cross-border collaboration between governments, electronic filing and other technology driven initiatives compound the challenges.

The reputation of corporate tax payers is under intense scrutiny. The tax affairs of MNCs are under the microscope, with a broad range of stakeholders – from politicians, activist groups and the media, as well as customers and consumers – taking a keen interest.

Meanwhile, the wider commercial drivers of globalization mean that global tax heads must constantly evolve their approach to meet business demands.

The need to align and sometimes integrate with broader initiatives such as finance transformation, shared services and Business Process Outsourcing (BPO) has resulted in increased centralization, the development of new tax operating models and greater use of technology.

Valued market insight

In 2010, in response to these changing market dynamics and business needs, Deloitte sought a deeper, objective understanding of how tax decision makers were reacting and so commissioned our first global market research study into this area.

Since then, we have commissioned similar independent market research studies on a biennial basis, with the first follow up survey completed in 2012 and the most recent concluded in December 2014. Over 1,000 tax decision makers from multinational companies across the world have now been surveyed.

This report looks at current insights, as well as trends from across the last five years, to provide a new benchmark for the global management of tax. Unless otherwise noted all figures relate to the 2014 market research survey.

The wider commercial drivers of globalization mean that global tax heads must constantly evolve their approach to meet business demands.

Research method and market size

An objective view

When Deloitte embarked upon the first global tax market research study in 2010, it was driven by a desire to take an objective view of what appeared to be a changing marketplace.

Our initial aim was to understand more about the globalization of tax compliance and reporting, as we saw more and more large global organizations issuing requests for proposals and tenders for bundled global services in this area.

Since then, we have seen a significant evolution in global tax management with more centralized operating models emerging, increased process standardization, greater use of technology and higher levels of integration with finance and the wider business. Our successive market research studies have responded by broadening in scope to cover wider aspects of global tax management such as governance, risk and technology.

All three of our market research studies to date have been conducted by the same leading global research provider under the strict guidelines laid down by the Market Research Society (MRS) code of conduct, establishing a consistent and independent perspective.

We have targeted respondents by role, focusing on those with ultimate responsibility for global tax management. In most cases, respondents go by the job title of 'Global Tax Director' or 'Global Head of Tax'.

Insights are gathered by means of a 25 minute structured interview. To add additional colour, in depth interviews of up to 1 hour are also conducted with a smaller group of constituents.

Qualifying criteria

In order that our surveys consistently represent the views of sufficiently global companies, we have always set clear qualifying criteria.

Respondents must represent companies that operate in five or more countries around the world and have global revenues in excess of US\$ 200 million.

Our 'market universe' under these criteria is drawn from one of the leading global providers of market data and, at our last survey, almost 5,000 companies qualified under our 'multinational' criteria.

Within our sample, we also seek a representative perspective by having a spread of companies across the market universe by number of operating countries, global revenue and the country of the headquarters location.

We also include companies with a broad spread of local country subsidiary locations across the world, as well as a wide range of industry sectors, in order to give a global and objective a view as possible.

Figure 1. Global research population: regional split by HQ country location

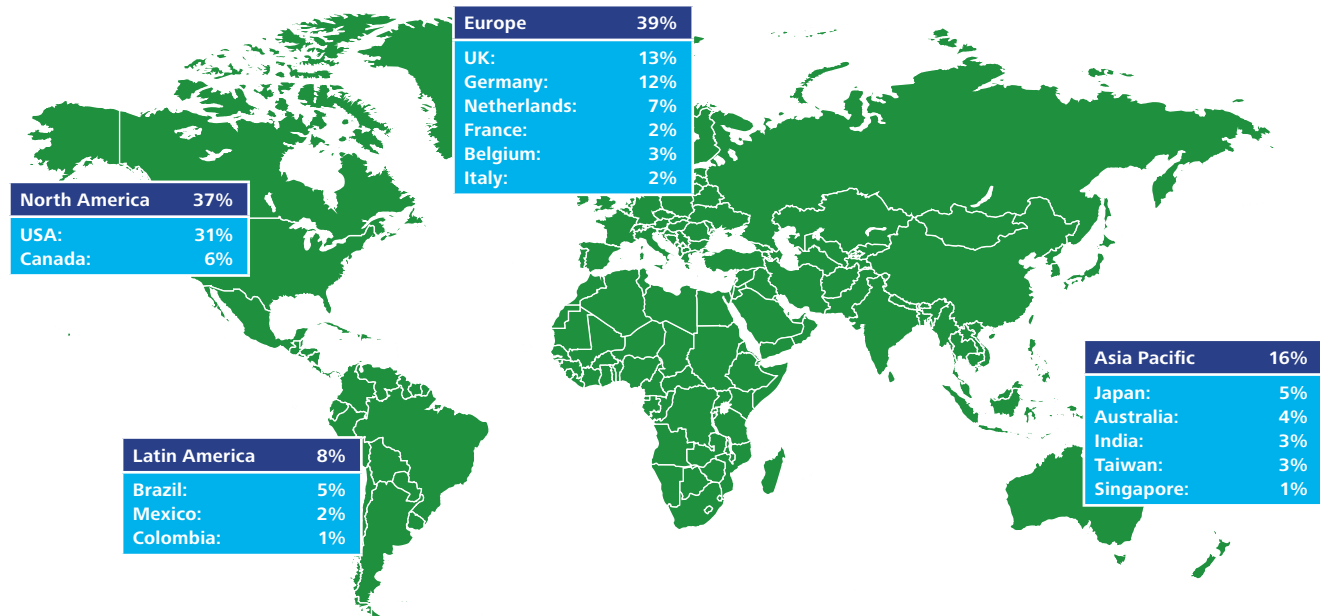
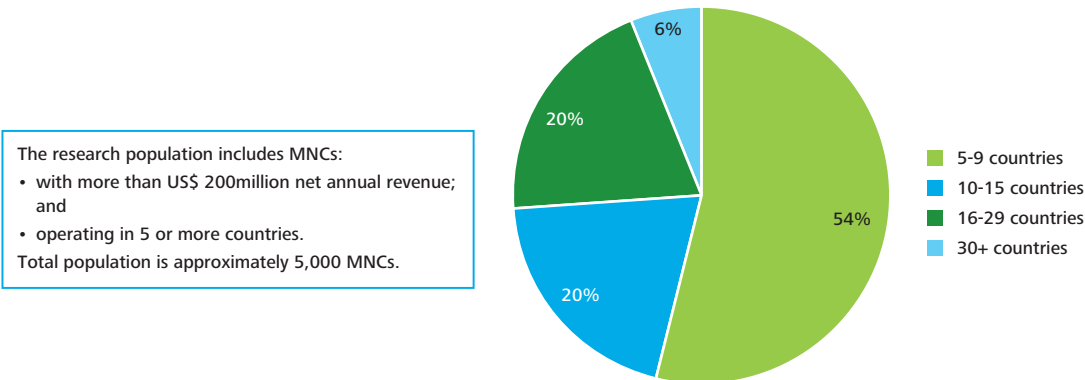


Figure 2. Global research population: representative split by number of operating countries



The evolving picture

Driving towards central control

Since 2010, our global market research has indicated some clear trends that we continue to see develop in our latest study.

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

When examined in more depth, the emphasis on quality and control appears to be driven by a desire for better governance and improved visibility from the center, as well as concerns about the consistency of tax expertise and resourcing across all operating jurisdictions.

Global visibility and local knowledge are sometimes seen to be in conflict. But both are critical to effective risk management. Managing tax risk is cited as one of the main concerns for the global tax department. As such, better oversight is seen as particularly important in the light of increased regulation and growing levels of scrutiny from a range of stakeholders.

So, as multinationals seek to develop a more sophisticated approach to global tax management, we have seen a continued shift towards more centralized operating models as a means of achieving this.

Strategic outsourcing

The move to more centralized models has been accompanied by a consolidation of external service providers and an increasing use of global or regional outsourcing, especially in countries outside the HQ location.

Often this has been used as a means of quickly improving quality through the delivery of consistent levels of tax expertise across all global operations and achieving increased central visibility and control.

Perhaps more pertinent is the strategic use of outsourcing as a catalyst for overall improvement or even transformation of global tax operating models.

Many global tax decision makers express a preference for in-house resourcing but there is a pragmatic recognition that external suppliers are necessary to complement the internal team which cannot extend to all processes and every location. Increasingly it is recognised that rationalizing and consolidating the number of those global suppliers and bundling services into globally outsourced contracts can act as a means to develop a more effective centralized operating model.

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

Variation by region and process

In our earlier research studies, the move to more centralized models has seen significant regional variation, with US and European headquartered multinationals more likely to operate more centralized models in the past.

More recently though, other regions have shown greater movement towards centralization and an increasing tendency towards outsourcing in particular in the Asia Pacific region.

Recent examination has also shown variation by tax compliance and reporting processes, with corporate income tax (CIT) and consolidated tax provision generally some way ahead of statutory accounts and indirect tax processes in the degree to which these are being centralized.

Improving global governance

In our latest research, most global tax decision makers state that they have most concern about managing the impact of increased regulation and legislation, particularly with respect to the potential impact of the OECD's BEPS action plan.

These concerns largely stem from the expected time frame and cost burden and uncertainty as to how their organization will respond.

More broadly, only a little over a quarter of those recently surveyed were able to state that they were very confident in their company's approach to global tax governance, so this is clearly an area requiring closer attention in the future.

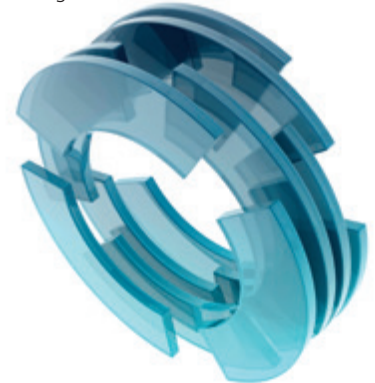
The path to happiness

Our most recent survey findings suggest that satisfaction with the current operating model is generally falling and that the desire for on-going improvement is strong.

Interestingly, our research suggests that there is a clear correlation between the trend towards centralization and greater confidence in the effectiveness of operating models – there are increased levels of satisfaction amongst those with more centralized tax operating models.

In addition to greater centralization a future focus on improved process efficiency seems to be gathering momentum, as organizations look to achieve more consistent global processes and quicker, simpler delivery, often through more effective use of technology.

The quest for 'adding value' is also cited as an area of growing importance for global tax decision makers, although successive surveys suggest this continues to be an aspiration often hampered by more immediate operational pressures or the latest regulatory challenge.



Drivers, needs and objectives

Commercial drivers

In terms of measurement, most global tax decision makers have some form of performance indicator from the business around the management of the Effective Tax Rate (ETR). The other most frequently cited business driver is risk management, although this is less easy to quantify via performance metrics.

However, what is clear from successive surveys is that this area continues to grow in both profile and importance for tax heads in large MNCs. For many, tax risk management is now the number one business priority for global heads of tax.

Tax management priorities

Ultimately, the need that is consistently evident in our market research is the requirement for confidence. Specifically, confidence that tax compliance and reporting are delivered accurately, on time and that tax risk is appropriately managed.

With increasing concern around regulation and facing a more robust approach from revenue authorities, most feel tax risk is increasing. This means that sufficient global visibility and oversight must be in place to deliver the required confidence to the business.

Of course, for many this remains an aspiration to which they continually work towards and can always improve. Some global tax decision makers still state their biggest risk is not knowing what they don't know!

In this light, 'quality' and 'control' consistently remain the key drivers for tax management, being rated of high importance for 88% and 77% of respondents in our most recent survey.

Process improvement

Whilst the drive for 'quality' and 'control' continues to be vested with higher importance than cost, when asked about their focus for the 3 years to 2017, around half of respondents say 'ability to add value' and 'process efficiency' will become more important.

As we discuss later in this report, another significant finding of our recent survey is a marked drop in levels of satisfaction with the current tax operating model against the five main drivers of quality, control, cost, ability to add value and process efficiency.

In this context, process efficiency really stands out with only 26% satisfied by this measure, a fall of 19% since the previous survey in 2012. What is particularly noteworthy is that those 26% of respondents who are happy with process efficiency are far more likely to be satisfied overall and so process efficiency seems to represent an important driver of general satisfaction with the global tax operating model.

Process efficiency is also mentioned frequently in qualitative terms. Phrases such as 'standardized methodologies', 'consistent processes', 'error reduction', 'faster delivery' and 'greater simplicity' have become more and more commonly heard in our interviews.

Figure 3. Current drivers of global organization & management of tax: relative importance of factors

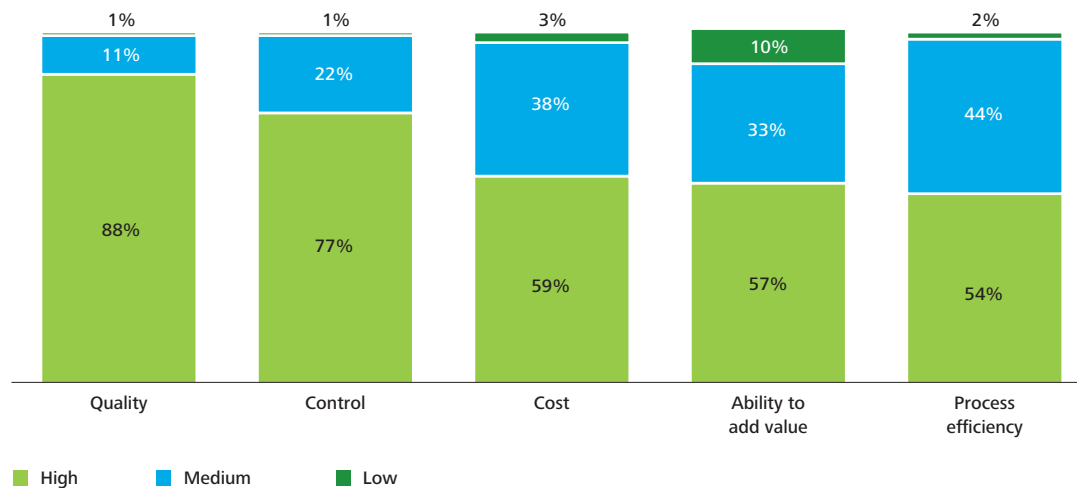
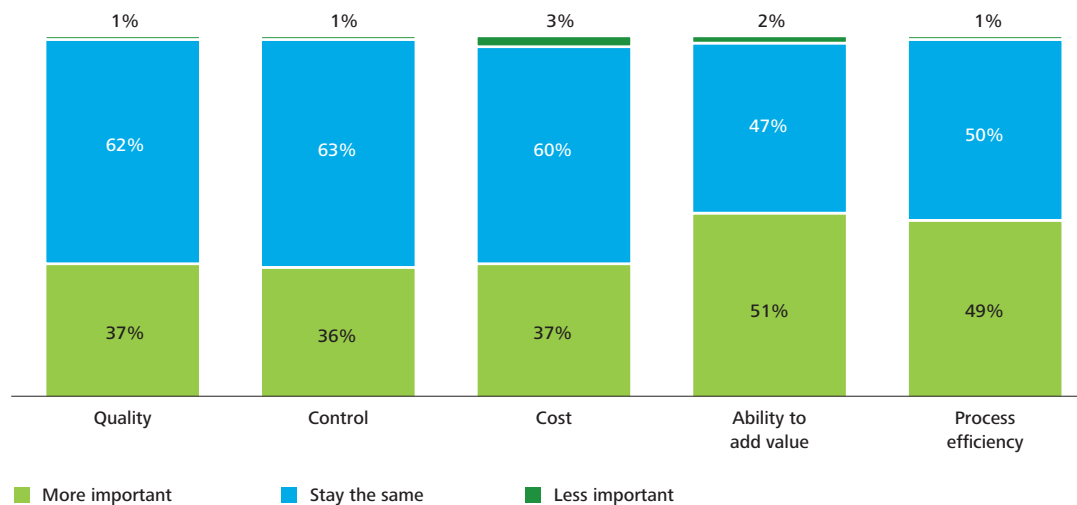


Figure 4. Anticipated importance of drivers over the next three years



Broader skills

As the emphasis on process efficiency grows, this has a direct impact on the demands that global companies make of their own tax staff and external providers.

Where an organization's objectives are driven by a desire to transform their tax operating model, inherent in this is the belief that centralization, process standardization and better use of technology will provide a natural route to process efficiency and overall improvement. As such, the skills to deliver these are becoming as important an element of a tax department's armoury as tax technical knowledge and expertise.

External forces

In terms of forthcoming challenges, BEPS and OECD standards are clearly top of the agenda with 52% citing this as the biggest area of regulation causing concern and therefore likely to drive future behavior.

With respect to the impact of these challenges, the main concern – for 51% of those surveyed most recently – was a perceived increase in the burden of compliance and reporting, with the associated strain on resources and cost this would bring.

When questioned qualitatively, it was apparent that concerns are particularly centered on the fear that country by country reporting could cause a significant increase in workload for global tax departments.

There is a corresponding level of anxiety about what the exact requirements of country by country reporting will entail and how consistently tax authorities around the world will approach this, leading to tax risk management issues.

Wider environmental drivers

Other concerns relate to the possible need to review global structuring and supply chains from a tax perspective or update processes and technology. Both of these could entail significant potential projects for global tax heads and their teams.

Respondents were also questioned in our most recent survey on whether EU audit rotation requirements might disrupt relationships with providers from a tax management and outsourcing perspective.

40% remain unsure about the impact on supplier relationships, 17% believe some changes will be required and 9% have already made changes. However, a little over a third expected no impact at all.

Figure 5. Areas of legislation cited as a cause for concern

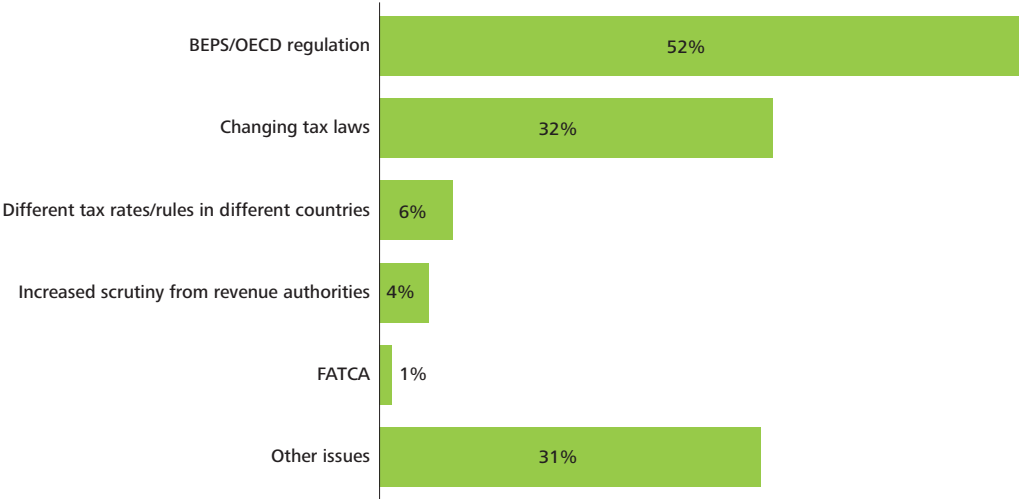
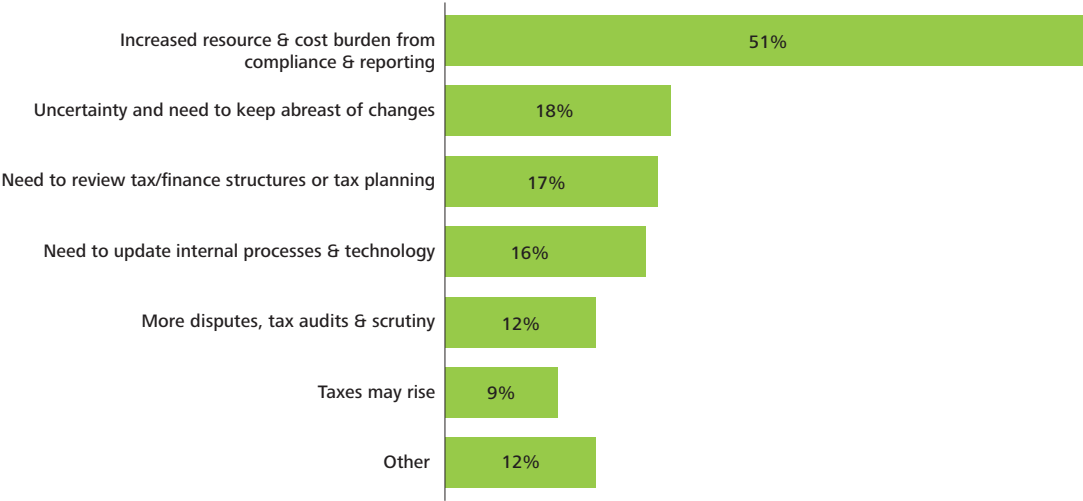


Figure 6. Anticipated impact of forthcoming legislation



Global tax operating models

Types of operating model

Analysis of our research findings from successive surveys shows that global companies' tax operating models do not clearly segment on traditional lines such as industry or geography.

Instead, we see a continuum from the least centralized to the most centralized, along which tax operating models can be broadly characterized as follows:

Method 1 is a *decentralized* model where almost all tax work is delivered locally with little global oversight.

Here, tax management remains highly devolved and local country finance teams often take on responsibility for many tax compliance and reporting tasks with additional specialist tax support coming from local service providers.

Method 2 is a *centrally co-ordinated* model where tax work is often undertaken or delivered locally but is overseen and co-ordinated centrally.

This model gives a greater degree of global control and visibility whilst retaining 'on the ground' expertise in local countries.

Method 3 is a *centralized* model where most of the tax work is carried out, delivered and managed from one or more central locations.

Typically, organizations adopting this model make greatest use of shared services and off-shore resourcing models in low cost locations, whether through their own in-house functions, outsourced operations or a mixture of both.

Current models

Our latest research shows that 62% of global MNCs now have some form of centralized tax operating model (method 2 or 3) compared to 54% in our previous 2012 survey.

Operating models are not always consistent across different areas though. The CIT and tax provision processes are much more likely to be part of a centralized operating model: over half of MNCs now operate centralized models for tax provision (67%) and CIT (59%).

In contrast, less than half operate centralized models for the production of statutory accounts (49%) and indirect tax return production (37%).

The biggest regional shift has been in Asia Pacific with a dramatic move towards centralization: 64% now operate a central model compared to only 26% in 2012.



Figure 7. Global tax operating models

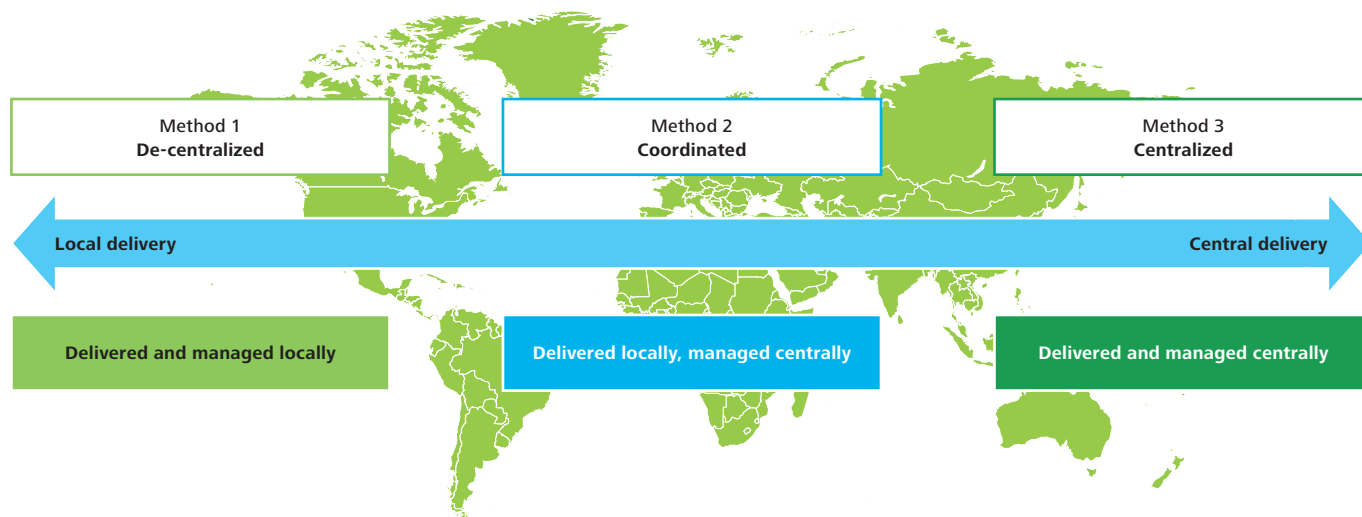
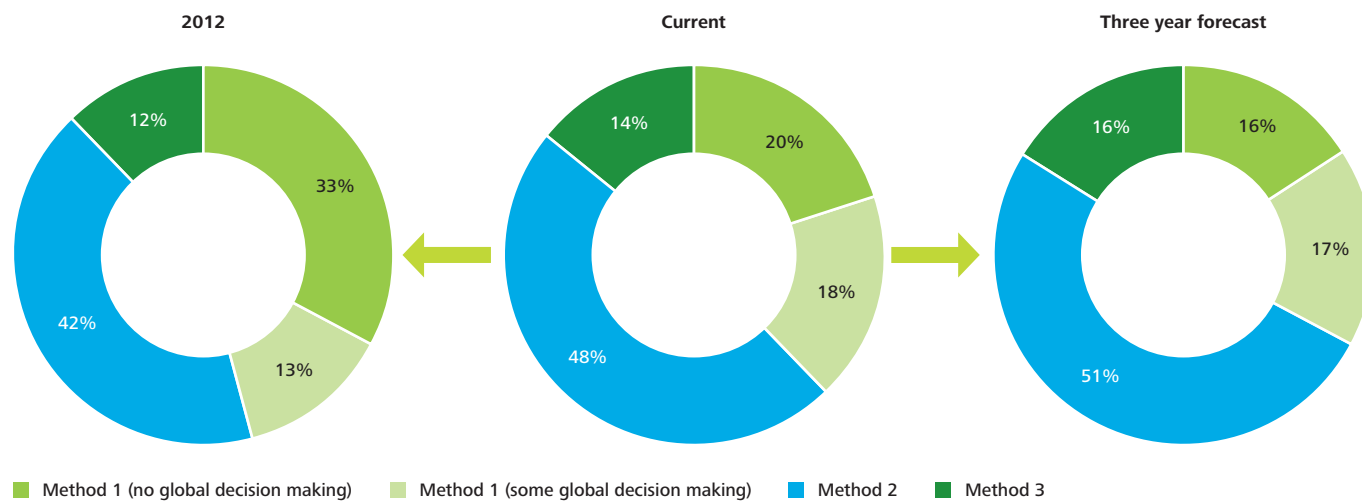


Figure 8. Global tax operating models: past, present and future (2012 and 2014 Surveys)



Improvement

Since our first study in 2010, we have seen decision makers within multinational companies express a clear desire to improve their global tax operating models.

Notwithstanding this ambition, there remains a wariness 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.

Our forecasts suggest a continued trend towards centralized operating models over the next three years but the pace of centralization is expected to slow down with the focus switching to making improvements to the current model, rather than wholesale changes in method.

29% of respondents now state that they expect to make changes within their current method over the next 3 years, a 16% increase on our previous findings in 2012.

Falling satisfaction levels

Perhaps fuelling the demand for improvement is a marked drop in overall satisfaction levels in our latest research findings.

Only 44% say they are happy with their current operating model, although the more centralized, the happier they appear to be, with 50% of those operating a method 3 model stating overall satisfaction.

Of course, with a greater understanding than five years ago of what is theoretically achievable through centralized services, process re-engineering and technology implementation, a drop in satisfaction with the status quo is perhaps understandable.

Indirect tax

A surprising result from our most recent research is the very low degree of satisfaction with the indirect tax process. Only 16% currently say their operating model works particularly well for this process in contrast to 47% who say that the CIT process works particularly well.

Perhaps revealing, is that those operating a Method 3 model for indirect tax are much more likely to say that this process works particularly well and further investigation with those expressing low satisfaction found them citing complexity and a lack of centralized strategy as common reasons behind their unhappiness.

Centralization

Whilst satisfaction levels are generally low, our findings suggest that the more centralized the model, the happier. Despite overall satisfaction with Method 3 being higher, one of the most significant drops in satisfaction among those operating this method was for process efficiency. Amongst method 3 models, this was down to 30% from 58% in 2012. As already discussed in this report, process efficiency is likely to be one of the key focus areas for improvement going forward.

Only 44% of respondents say they are happy with their current operating model.

Figure 9. Current global tax operating model by tax compliance and reporting process

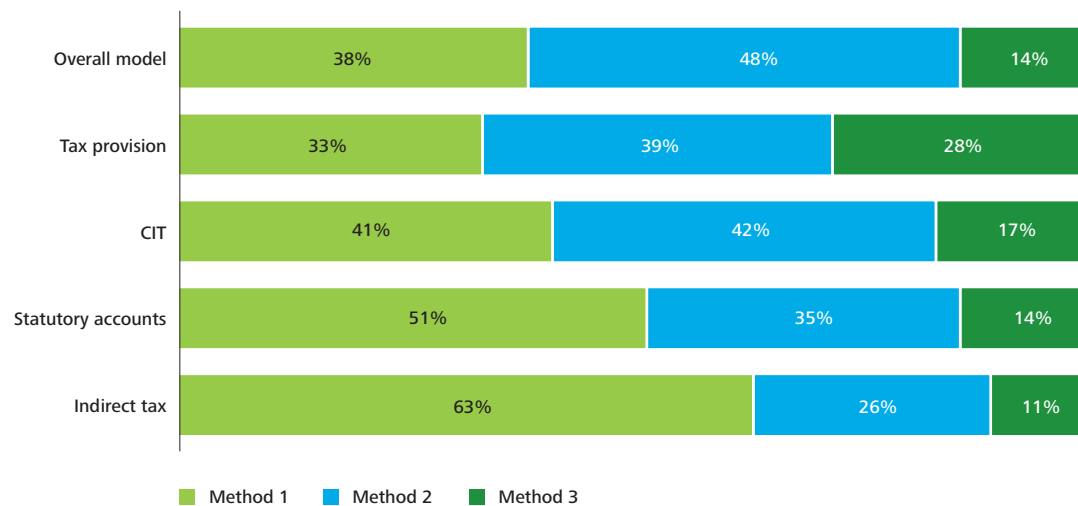
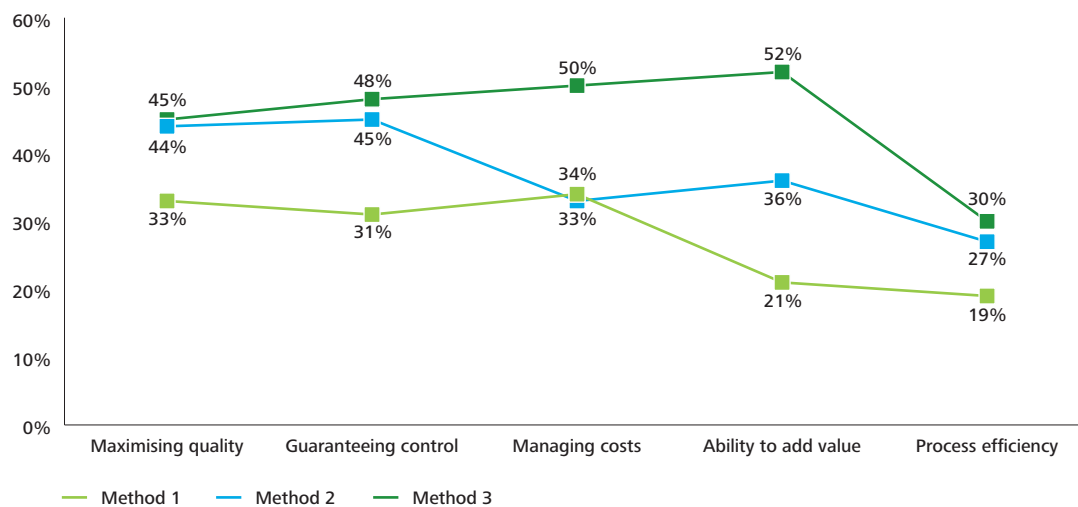


Figure 10. Satisfaction (% happy) with current operating model by driver and method



Resourcing trends

Evolution, not design

When we first surveyed the market in 2010, resourcing of global tax functions varied significantly. It was clear that outside the HQ location there were often inconsistent levels of in-house tax expertise.

Structures had usually evolved rather than been designed. They were largely determined by a mix of local tax compliance requirements, historical precedent, the availability of in-house tax expertise in each country, the approach of the local finance controllers and local relationships with external tax advisors.

The right mix

As tax directors have sought to achieve greater quality and control, it has become clear that getting the right expertise in place is rarely a straight choice between in-house delivery or outsourcing.

Instead, mixed approaches prevail, with a variety of internal and external resources deployed. The aim is to ensure appropriate tax expertise and resourcing is in place for each process and in each operating country.

As such, the concept of co-sourcing and seamless collaboration with external providers is a pragmatic and appealing answer and this remains a key ingredient for working with external providers.

Global tax decision makers also want to get best value for money from their own tax people, aspiring for them to focus on adding value rather than tying them up with 'manual' tax tasks which, in principle, they feel can be outsourced, automated or both.

Shared service centers

Within the resourcing mix, our research since 2010 has consistently shown that just over half of global companies operate shared service centers for finance. Of these, around half perform some tax processes and, as technology integration improves, it is expected that more compliance and reporting functions will move into these shared service environments.

In terms of external shared service centers, 21% of global tax heads now use a provider's service center for some processes. 42% of those using an external provider's service center cited improved expertise and knowledge as one of the benefits, whilst 38% cited cost and 27% efficiency.

Amongst the same group of users, 29% cited reduced control and 26% cited lack of local knowledge as a drawback. There seems to be a balanced view on the pros and cons of this approach and a realistic acknowledgement that central services bring benefits but are not a total panacea.

In-house preference

Across all our surveys, a preference for in-house resourcing has always prevailed, tempered by a degree of realism that in many locations there is insufficient work for a full time resource and so having in-house resource everywhere is not sustainable.

This preference seems somewhat supported by higher satisfaction levels with respect to cost, added value and process efficiency amongst those that largely in-source.

Figure 11. Current global resourcing approach by tax compliance and reporting process

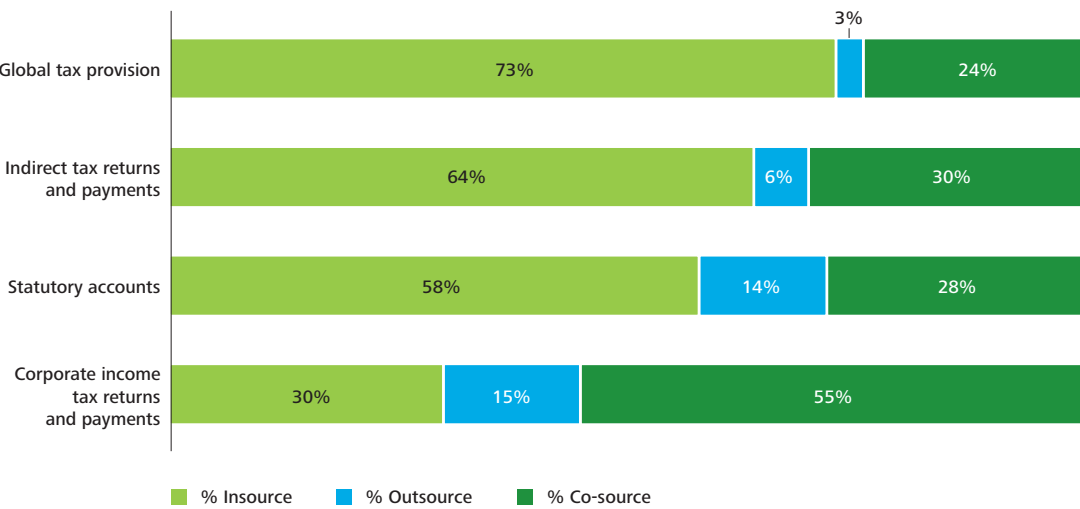
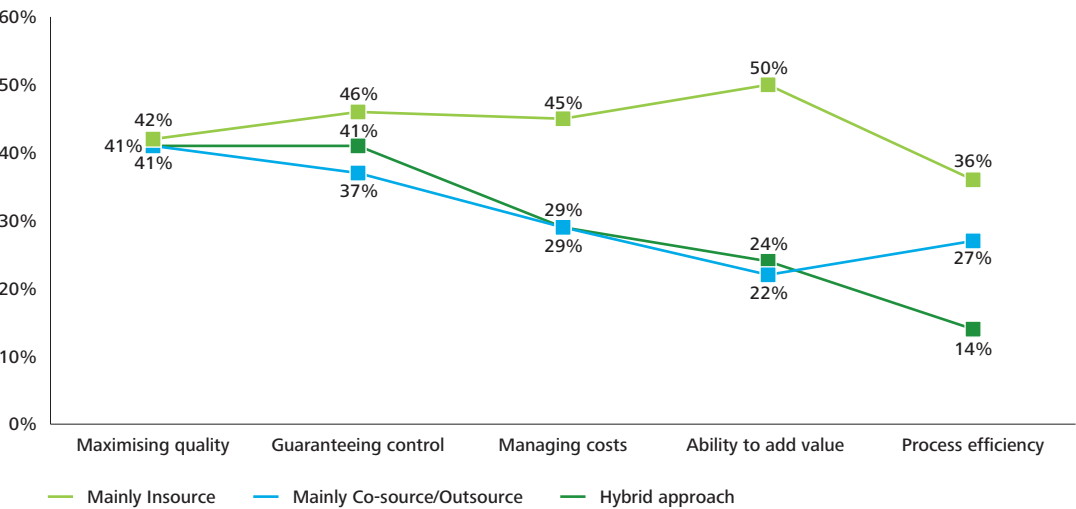


Figure 12. Satisfaction (% happy) with current resourcing approach by driver



Future resourcing

Overall our latest findings suggest that the reliance on external providers is likely to remain largely constant with only a 4% net increase in outsourcing expected over the next 3 years. However, more bundling of services and processes is expected within those outsourced arrangements.

That said, a larger 14% net increase in outsourcing is expected amongst those currently operating method 1 models, supporting the trend for outsourcing as a means of centralization and transformation

The biggest change is expected in Asia Pacific, where we see multinationals headquartered in this region anticipating a 23% net increase in outsourcing, underlining that this is currently the most dynamic region in terms of changing operating and resourcing models.

Procurement

With the trend to more global centralized tax operating models has come a corresponding degree of procurement sophistication. We now see more services bundled in single global supplier reviews and the expectations and demands that multinational companies place on external providers continue to grow.

In 2010 we saw the vast majority of 'global' reviews conducted as informal checks on current pricing and service levels and often dispersed to a local level. Only an estimated 10% of supplier reviews were conducted as a formal global request for proposal. Today, we estimate over 50% of reviews taking this more structured form, coupled with more frequent review cycles.

Achieving success

As global companies plot a path towards an optimum operating and resourcing model, our research and market experience suggest there are some key ingredients required for success.

It is initially important to identify all the stakeholders within every process and engage them from the outset. Then, detailed planning and business case development and a clearly articulated role for internal and external resources, are essential.

Finally a clear roadmap for improvement – or transformation – is essential, detailing the stages of development, outlining roles and responsibilities, and stating goals and success measures.

The reliance on external providers is likely to remain largely constant with only a 4% net increase in outsourcing expected over the next 3 years.

Figure 13. Outsourcing expectations in the next 3 years

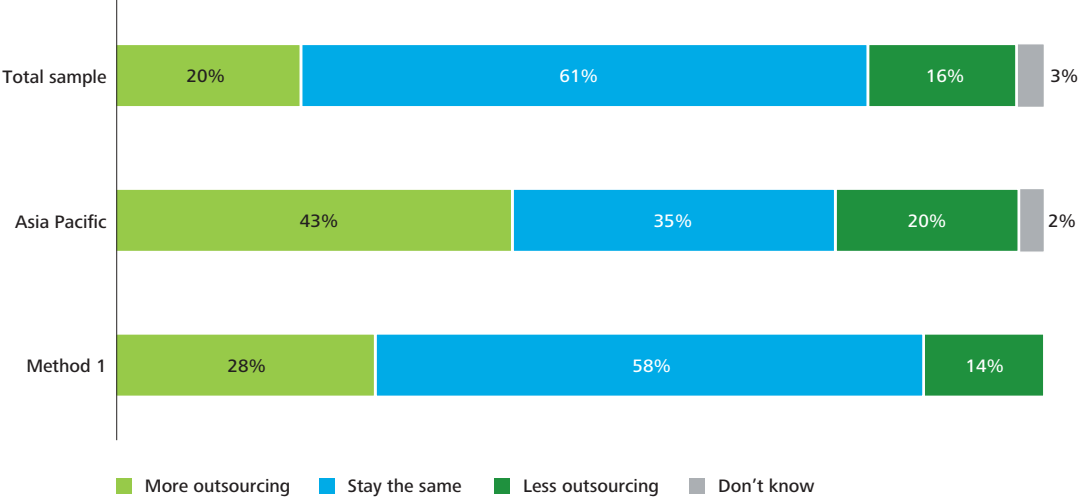
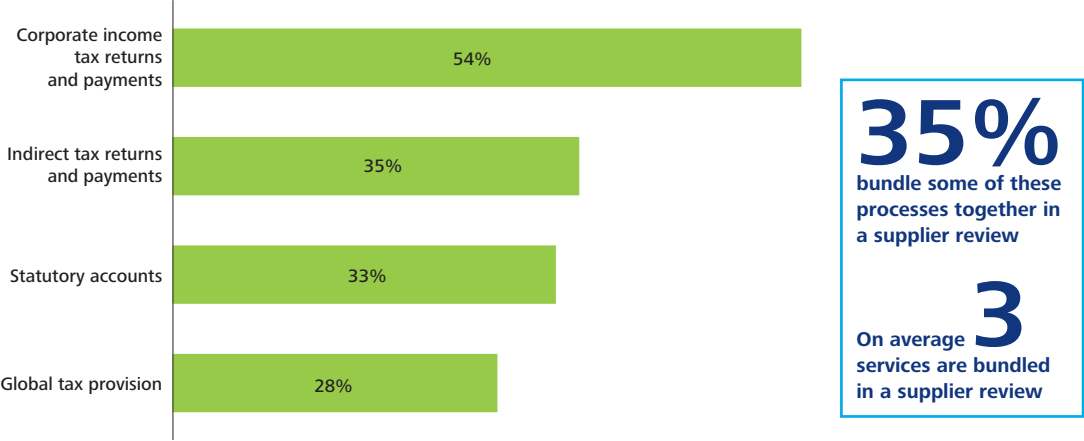


Figure 14. Likelihood of tax compliance and reporting processes being included in a supplier review



The role of technology

Realizing the benefits of technology

There is little question that most global tax decision makers feel they could do more with technology. Our past surveys have shown this to be overwhelmingly the case. They also tell us it is one of the perceived keys to the process efficiency improvements that they seek.

In reality though, many still appear to be wrestling with the challenges presented by technology. Levels of satisfaction with tax technology are low and most cite room for improvement.

A clue to the conundrum comes in our recent research findings, which suggest that many organizations do not have a real focus on technology: 65% of global companies do not have a formal plan in place for their tax technology architecture and 41% have no one in place with overall responsibility for tax technology. Only 55% have a specific budget assigned for tax technology.

Analyzed further, we see that only 20% have the combination of a formal technology plan, a person with specific responsibility for tax technology and a specific tax technology budget.

Technology enablement

Interestingly, good use of technology is shown to boost overall satisfaction with the global tax operating model.

As reported, only 44% of respondents are happy overall with their operating model but satisfaction jumps significantly to 71% amongst those that are also happy with their tax management system. Similarly, 65% of those happy with Enterprise Resource Planning (ERP) configuration were also happy with their tax operating model overall.

The power of data

Over the last five years, we have seen much discussion around the potential for analytics that can leverage global tax compliance and reporting data to generate greater business value.

Our previous research studies have suggested that global companies were already anticipating what some referred to as a 'planning dividend' as they began standardizing processes and tax data globally.

With the right systems in place, the use of data analytics to perform searches for transaction coding errors, assess supply chain efficiency, identify high cash tax business units and run tax scenario planning across global groups should be able to reveal new opportunities.

In practice, however, this vision has been difficult for most to realize. Successive surveys have suggested that adding value will become a more important driver for tax functions in the future but then following surveys suggest it often remains an 'important, non-urgent' aspiration, as the current focus remains firmly on quality and control.

The question remains, will effective leverage of tax compliance data to deliver value always remain aspirational or even illusive? Whilst a valid question, it certainly seems that the majority remain convinced of the potential for single source data to transform their approach, with 56% in our last survey stating that configuration of ERP systems for tax is their first or second priority when it comes to making technology improvements.

Figure 15. Overall satisfaction with current tax technology

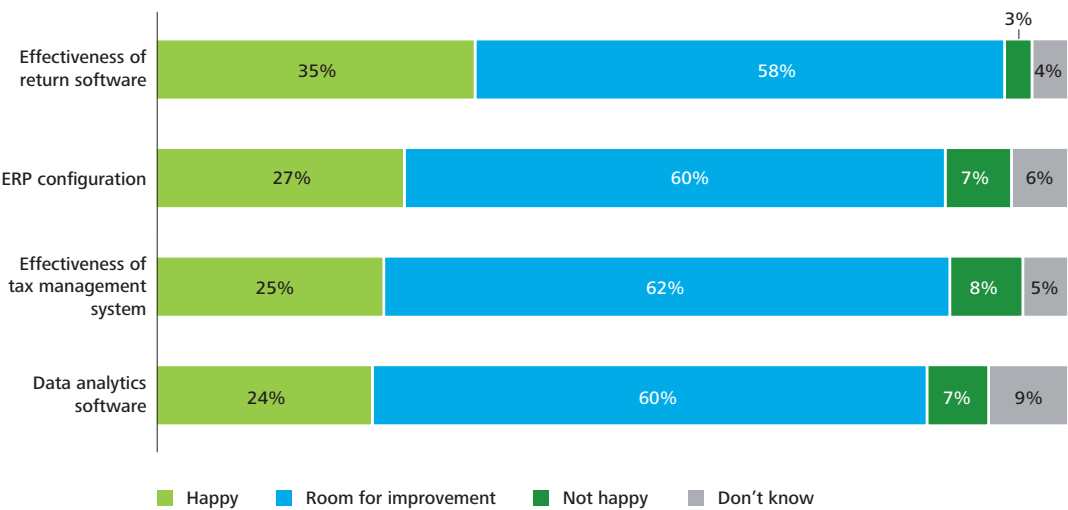
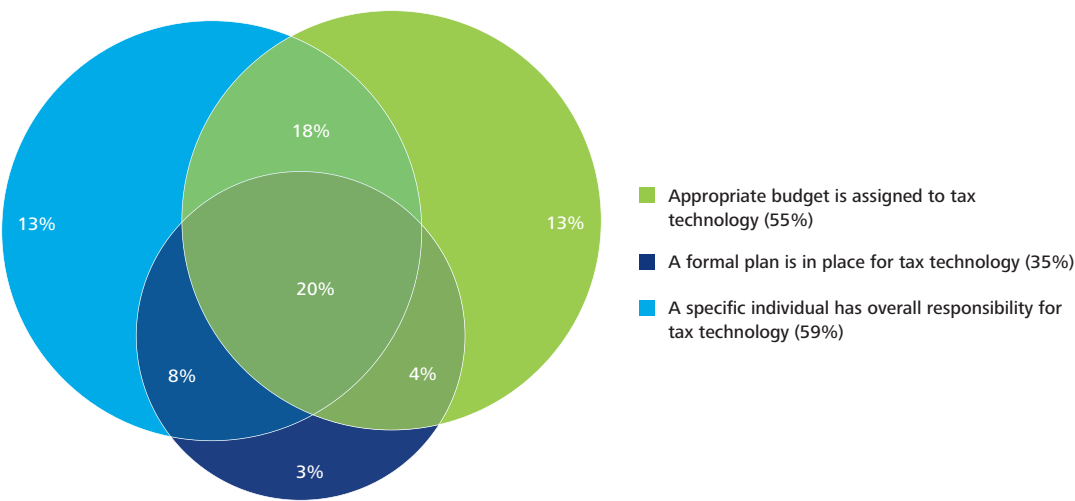


Figure 16. Degree of tax technology sophistication



Governance and risk

A surprising picture

As discussed earlier, the scope of our more recent research has broadened to reflect the ever growing importance of governance and risk to global tax decision makers.

As with technology, our research suggests that this is an important area that is, surprisingly, not being given the degree of priority that it demands. Our findings certainly suggest there is much scope for improvement.

Nearly half of the global businesses surveyed stated that they have no formal tax policy and only one third have a formal written policy that is specifically signed off by the board. Moreover, only 43% of those with a formal tax policy are confident it is put into place across the business.

Formal tax policy or not, when it comes to tax risk management processes more generally, just over a quarter admit to having no process at all for identifying, controlling or reporting tax risk.

This is of real concern, given the heightened level of scrutiny and risk for corporate tax payers and the implications for brand value and the bottom line if global companies attract negative headlines.

Overall, the findings show there is much work to do, as only 26% feel very confident they have the right approach to tax governance in place.

A catalyst for improvement

When analyzed by global tax operating model, it appears that there is a correlation between centralization and addressing governance. Those organizations operating a decentralized method 1 model consistently lag behind: 60% with a method 1 model have no formal tax policy in place and 40% have no process for identifying, controlling or reporting tax risk.

Certainly, centralization appears to bring greater confidence in tax governance with 39% of those operating a method 3 model feeling very confident in their approach and a further 57% feeling fairly confident (so 96% feeling fairly or very confident).

An indicator of sophistication

Interestingly, there is evidence that good global tax governance is also linked to good practice in other areas.

Whilst only 26% overall feel very confident they have the right approach to tax governance in place, 51% of those that have a formal plan for their tax technology architecture are also very confident in their approach to governance.

Confidence in the company's approach to tax governance also correlates with overall satisfaction with the global tax operating model. When set alongside a range of our research findings, analysis suggests that good global tax governance might be a proxy for overall 'sophistication' in tax management.

Figure 17. Companies with formal written global tax policy in place: total and by operating model

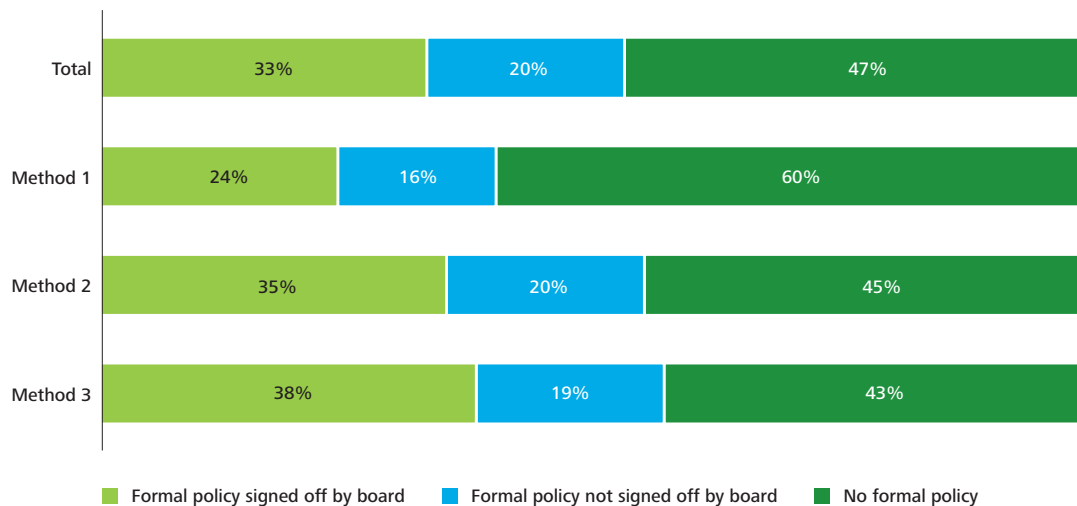
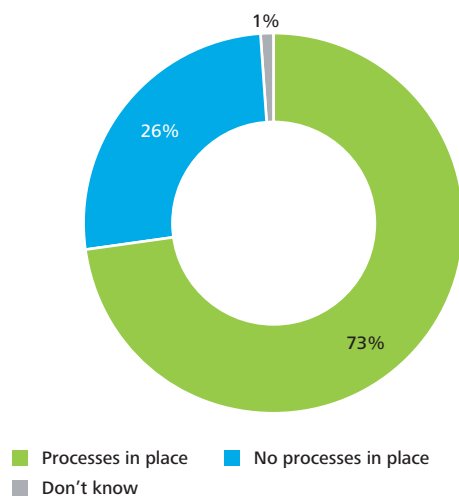


Figure 18. Companies with processes in place for identifying, controlling and reporting tax risk



Nearly half of the global businesses surveyed stated that they have no formal tax policy in place and only one third have a formal written policy that is specifically signed off by the board.

The future

Growing momentum for change

Following our first global market research survey in 2010, we observed a high degree of theoretical interest in improvement, but this was not matched when it came to implementing change or transformation.

In 2012, we started to see this dynamic shifting, as global tax decision makers began to express dissatisfaction with the status quo and a stronger desire for change. Likewise, satisfaction appeared to increase as global tax operating models became more centralized.

Today, we are seeing this in even sharper focus. Our research tells us that those with more centralized control are generally more satisfied but a drop in levels of satisfaction across the board suggests a higher degree of impatience with the status quo.

Coupled with growing risk and regulatory concerns, the time is ripe for global tax heads to take stock and put in place a plan for material improvements to their global operating model and practices.

Greater clarity of direction

As global companies address the ever pressing urge to change and improve their approach to global tax management, the insights taken from our research across the last five years suggest a number of key indicators for the future.

Quality and control remain essential drivers but process efficiency is growing in importance and ultimately appears to drive satisfaction with the overall global tax operating model of an organization.

Indirect tax and statutory account production seem to be the processes for which global tax decision makers feel their current operating model is least effective but satisfaction levels rise for those with more centralized delivery models, providing clear direction.

The Asia Pacific region looks to be the most dynamic in terms of changing operating models, perhaps as organizations expand outside the region and look for new approaches to managing tax in unfamiliar jurisdictions, so there will likely be much change here.

More generally, it would seem that a significant focus in the coming years will rest on making improvements to organizations' existing operating models rather than wholesale changes in method, with particular focus on advances in global tax governance and tax technology.

Overall, our research suggests that those organizations feeling more in control of – and satisfied with – their global tax operating model, resourcing, processes, technology and governance, feel more confident in dealing with the impact of closer regulatory scrutiny and an increasing compliance burden.

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