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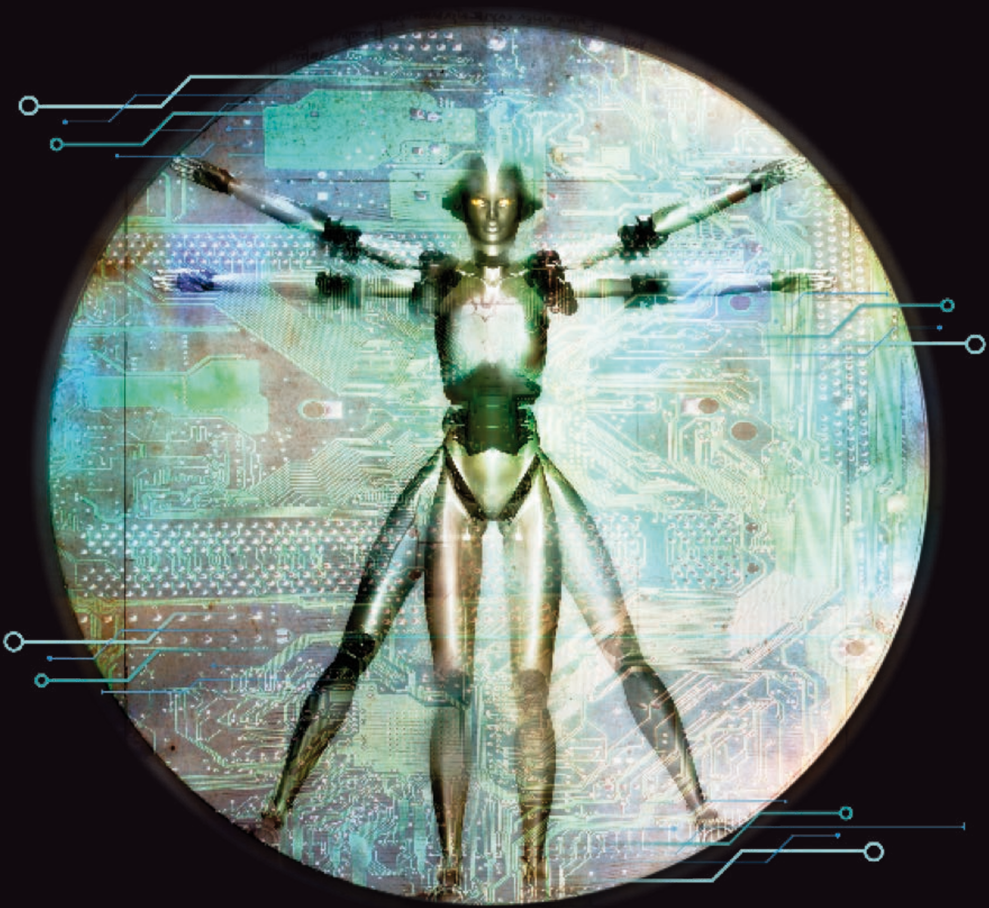


The management of tax

Global research bulletin

February 2017

Evolving insights

Informed by independent research spanning seven years, Deloitte's insight into the management of tax within the largest global businesses continues to grow and evolve.

From inception in 2010, Deloitte has commissioned four independent market research studies with global tax decision makers, the most recent concluding in December 2016.

With over 1,200 interviews completed in that time, we continue to build a substantive – and objective – view of the global tax management landscape.

Terms of reference

Deloitte's successive global tax management market research studies have enabled us to characterize global tax operating models into three broadly understood definitions. These have been used as the main terms of reference for our research since 2010:

- **Method 1** is a *decentralized* model where all work is undertaken locally with little global oversight.
- **Method 2** is a *centrally coordinated* model where work is often delivered locally but is overseen and coordinated centrally.
- **Method 3** is a *centralized* model where most work is carried out and managed from a central location.

Scope of research

Our research reflects the known 'universe' of large multinationals across the world – defined as any business with annual revenue in excess of US $200 million and operating in five or more countries – numbering almost 5,000 organizations.

Interviews were undertaken with a representative spread of organizations both in terms of geography and industry sector to obtain as accurate a perspective as possible.

The latest picture

Unhappy with the status quo and under pressure from inside and outside the business, global tax leaders are looking to process efficiency and technology to deliver the improvements they need.

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

Over subsequent research studies, we have seen them respond with significant changes to global tax operating models. These have mostly featured increased centralization, integration with other business operations and consolidation of resourcing models.

With the conclusion of our latest research, we see large multinationals moving into a markedly new and different phase.

Satisfaction with the current state has dropped to dramatically low levels. Centralization has slowed and significant changes to operating models are not expected over the next few years. Instead, the focus is switching to the way chosen operating models work and how this can be improved.

Previous research has revealed that standardizing global processes, achieving greater visibility and control, as well as realizing benefits from automation and other technologies, represented a significant challenge. It seems that global tax leaders continue to struggle in these areas but acknowledge that solving them is the most likely key to future success.

Overall, our latest study suggests a global tax management environment that is ripe for further change, as the focus shifts from the 'what' of the global operating model to the 'how' of delivery through process improvement, greater automation and more effective use of technology.

Falling satisfaction levels

In 2014, overall satisfaction with the current state of tax management was low, having fallen since 2012. Latest research shows satisfaction levels falling even further.

While still higher than that seen for other models, overall satisfaction amongst those with the most centralised tax operating models has fallen most sharply, suggesting there is still much work required to realise the benefits of greater centralization.

Running to stand still

As the impact of the OECD's Base Erosion and Profit Shifting (BEPS) agenda has become a reality, the global tax compliance and reporting burden has grown for many. And as key stakeholders take a growing interest in tax's role in brand risk and reputation, tax leaders have come under greater scrutiny.

Moreover, as global businesses have continued to transform their wider financial systems and business operations, tax teams have been expected to follow the programme or in some cases have had new systems or delivery models imposed from outside tax.

These dynamics have contrived to increase the burden on global tax heads and for many it feels as if they are simply 'running to stand still'.

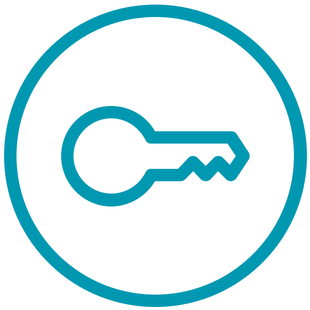
Unlocking new benefits

While commercial priorities remain focused largely on quality and control, better process efficiency remains an aspirational goal, with a sense this could be the key to tangible improvements within the chosen operating model.

However, the latest research also shows that global tax leaders remain unclear on the right path to achieving this goal, particularly when it comes to leveraging new developments in technology.

Indeed, while the conceptual benefits of technology are appreciated, most global tax heads admit they continue to struggle in reality. They fear the cost of poorly implemented projects and often find it difficult to secure sufficient budget for investment.

By their own admission, many lack the requisite knowledge or in-house expertise to provide them with the confidence to make the right technology decisions and investments. But they recognize that making these decisions and getting them right could unlock the much desired improvement and greater satisfaction they seek.



Global research headlines

Global tax operating models

- Nearly two thirds operate some form of centralized tax management model (methods 2 and 3), with North American organizations the most centralized (80%).
- With little change since 2014 the pace of centralization does seem to have slowed and forecasts suggest a similar distribution of operating models in three years' time.
- However, of the 20% not currently making tax decisions globally, one third suggest they will move to a more centralized model within the next three years.
- There is considerable variation in the degree of centralization achieved among tax processes.

Commercial drivers of tax management

- Since 2010, quality and control have remained the most important drivers for the management of tax within global organizations.
- In 2014 over half of respondents suggested that the ability to add value and process efficiency would become more important drivers but qualitative interviews in 2016 suggest that the response to recent global regulation has driven continued emphasis on quality and control.
- There remains a sense that process efficiency will grow most in importance in the coming years, especially amongst those with the most centralized operating models.
- Unsurprisingly, given the increasing volume and complexity of global regulatory compliance, it is anticipated that control will become an even more important driver for tax.

Figure 1. Current global tax operating model (%)

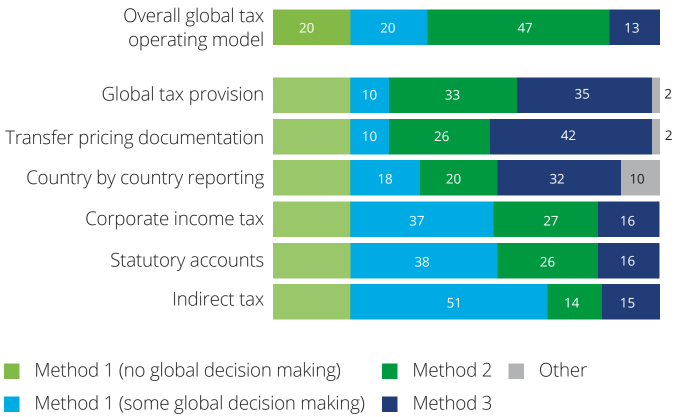
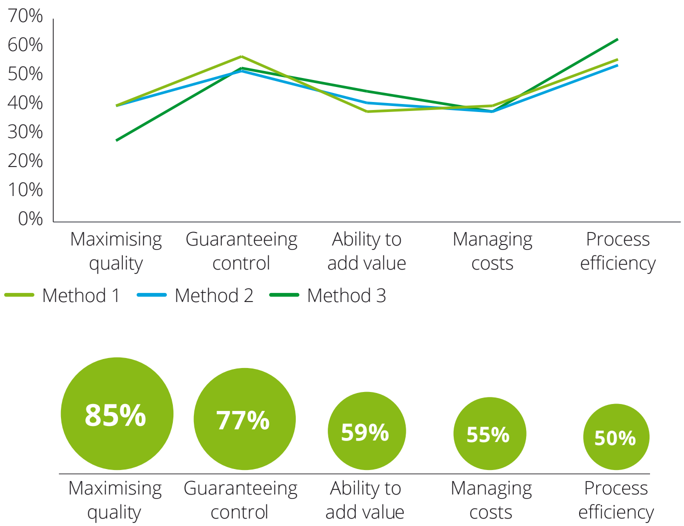


Figure 2. Anticipated importance of drivers over next 3 years (% more important)



Current importance of each driver (% high importance)

Satisfaction with current state

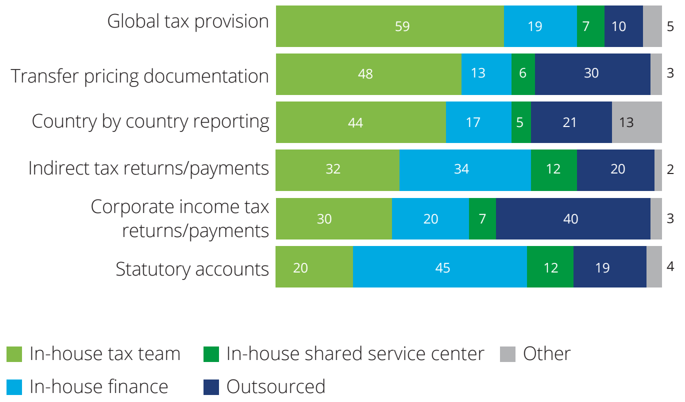
- Levels of satisfaction with current delivery models remain low with a further drop in satisfaction levels in 2016.
- Satisfaction with process efficiency is at an all time low of 16%, suggesting attempts to improve efficiency have not been successful.
- Across the different degrees of centralization, those operating method 2 models are most satisfied (36% are happy), although this still means that nearly two thirds see scope for improvement.
- While those with method 1 models are least satisfied (only 25% happy), those operating method 3 models have experienced the largest average drop in satisfaction since 2014.

Approach to resourcing

- As in previous years there appears to be an overall preference for in-house management of the key global tax reporting processes.
- The 2016 survey looked at a more detailed breakdown of resourcing models, providing an interesting picture across the main processes and an indication of where the work is conducted in-house.
- When indexed against satisfaction levels, those who mainly use shared service centers tend to be happier than average.
- When compared to their ideal resourcing models, results suggest organizations would like to move transfer pricing documentation and indirect tax processes towards greater use of in-house shared services or outsourced delivery.

Figure 3. Satisfaction with current operating model (% happy)

Figure 4. Current resourcing models by tax process (%)



Country by country reporting

- In response to the requirements prompted by the OECD's BEPS Action 13, 66% of those global companies surveyed will be required to undertake country by country reporting.
- Of those required to undertake country by country reporting, 89% have made a clear decision on approach with a degree of polarization between 'top down' and 'bottom up' methods.
- Availability of data and organizational efficiency are the most reported drivers of the approach chosen.
- Top down reporting is most prevalent with the largest and most centralized organizations: 75% of those operating in 30+ countries and 51% of those with method 3 operating models will employ a 'top down' approach.
- Of those who have decided on their approach to country by country reporting, 72% plan to reconcile with at least some local country filings.

Global tax governance and risk

- Although 74% of global tax decision makers report on tax risk regularly to the board, only 36% have also formally assessed the appetite for tax risk in the business and put in place formal processes to manage risk.
- 44% have a formal written tax policy but only 28% have a tax policy that has been signed off at board level.
- Only half of those with a formal policy have turned it into an operational plan and are confident this is being followed.
- Significant regional variations exist: 46% of European multinationals have a formal written tax policy signed off by the board compared to only 20% in Asia Pacific and 8% in North America.

Figure 5. Approach to country by country reporting (%)

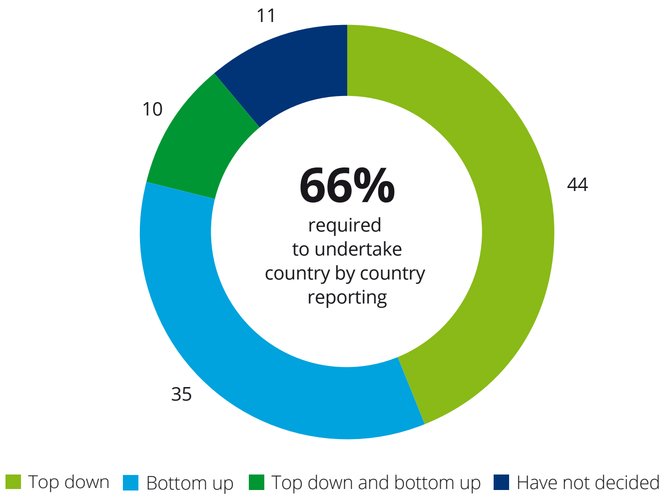
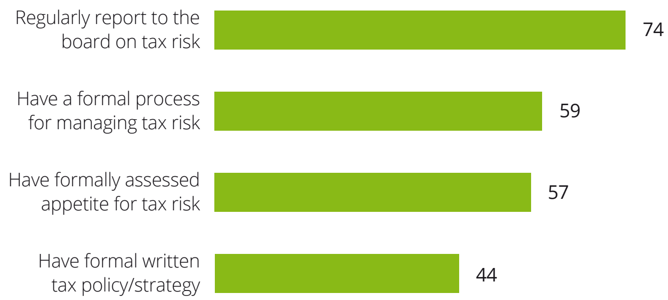


Fig 6. Tax risk and governance indicators (%)



Tax technology

- Only 12% of organizations have a specific individual responsible for tax technology and appropriate budget assigned and a formal plan in place.
- Those with the most centralized (method 3) tax operating models are more likely to have a formal technology plan (34%) and have appropriate budget assigned (65%).
- The largest organizations (those operating in 30+ countries) are more likely to have an individual with specific responsibility for tax technology (82%).
- Only 20% feel they currently derive high benefit from technology with regard to improving process efficiency but 66% feel technology could be of high potential benefit in this area.
- Likewise, only 22% derive high benefit from technology in improving data quality and accuracy but 64% believe it could be of high potential benefit.
- 70% of respondents have at least one emerging technology in tax on their radar, by which we mean dashboarding, big data, robotic process automation or cognitive computing.
- Many have material concerns regarding emerging technology:
  - 91% express concerns about the amount of time and resource required for implementation.
  - 86% have concerns about the lack of tax technology knowledge within the business.
  - 76% have concerns around securing budget.

Figure 7. Degree of tax technology sophistication (%)

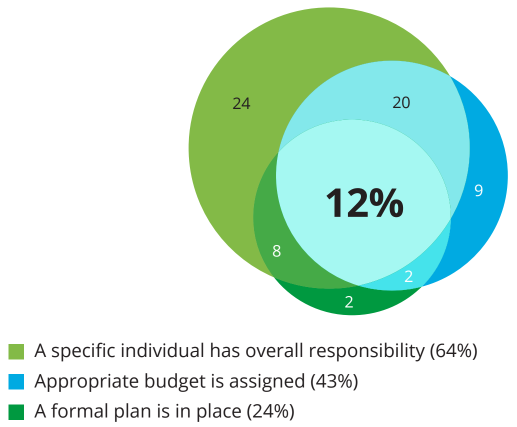
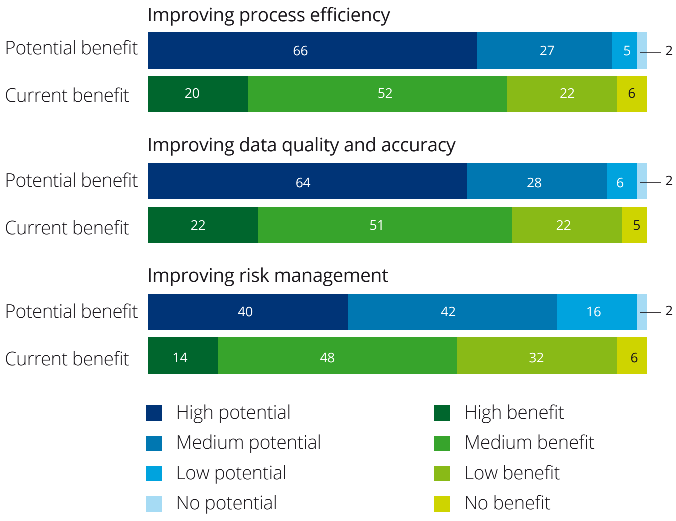


Figure 8. Potential vs current benefits of tax technology (%)



Looking forward

The latest research shows that previous moves towards centralized operating models have not yet delivered the desired benefits. As a result a renewed focus and further change are expected.

Finding added value remains elusive. Achieving process efficiency continues to be an important aspiration. But right now, it seems they might represent a challenge too far. Simply maintaining quality and control in the face of the growing global regulatory burden appears to be all-consuming.

While technology could support improvement and ease the burden, few have fully got to grips with planning, managing, funding or implementing it.

Certainly, the picture that emerges suggests a continued appetite for meaningful change but an uncertainty in the right way forward. This all points to a dynamic environment in the future.

So, what will the coming years bring in the area of global tax management and what will future Deloitte research studies tell us?

Given such low levels of satisfaction with the current state, it seems likely that we will continue to see a strong impetus to improve all aspects of the tax operating model.

Global tax leaders will need to find ways to overcome their current burden of work and create the time, head space and budget to find a way forward.

Indeed, to manage higher volumes of reporting and deal with greater expectations from business stakeholders, perhaps a new 'business as usual' must be found?

It seems likely though that a concerted focus on optimizing resourcing models, delivering process efficiencies and successfully leveraging new technology will be key to any potential answers.

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