

Boardroom Questions

Tax Reimagined – Prepare for the future of tax

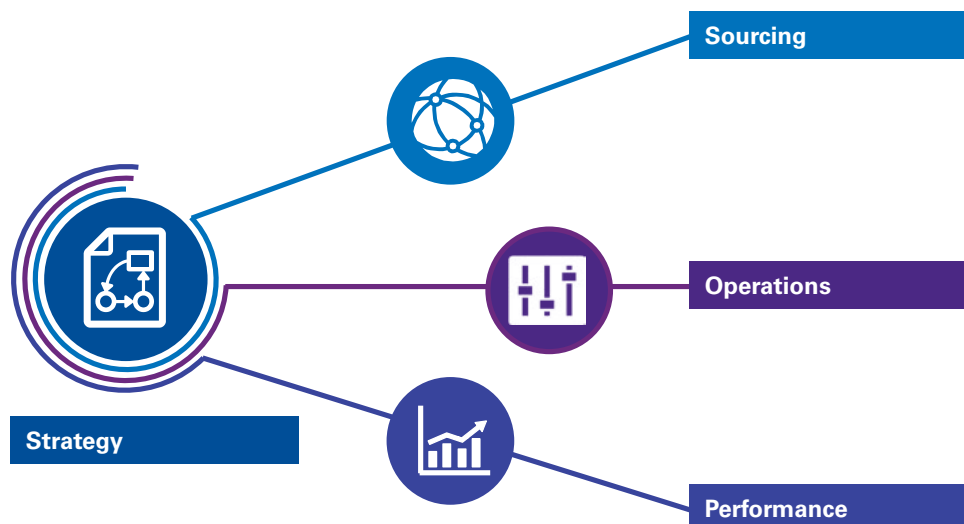
Development of a digital tax roadmap

There is no shortage of challenges and opportunities facing today's tax functions. In a world of increasing focus on Environmental, Social and Corporate Governance (ESG), tax transparency and governance are firmly on the board agenda. A corresponding increase in tax compliance and reporting obligations and the trend towards digitalisation mean that carrying on as in the past is not a viable option: tax functions need to develop a digital roadmap and prepare for the future of tax now. What does this mean in terms of resource and skills requirements for in-house tax teams? How can tax leaders tackle compliance obligations, elevate tax's strategic role within the business and clearly articulate the value-adding potential of the tax department within – and beyond – the organization?

Making Tax Reimagined tangible

These days, ESG is high on the agenda and also in terms of tax. This is the impetus to shift the conversation, to lay the foundation of an irresistible business case for investment in tax infrastructure. This takes the form of new tax operating

models, technology tools and capabilities which are more adaptable and configurable to tax needs and flexible new ways of approaching sourcing.



Finding the right sourcing strategy

Many organizations have started to explore a center of excellence approach to manage their tax compliance requirements, aiming to improve efficiency and effectiveness with one global team in charge of the company's tax compliance. While centralization of compliance within the tax function can be an efficient solution, the required country-specific expertise and technologies can be very costly. Companies may prefer to outsource some aspects of tax compliance as part of their strategy to safeguard risk mitigation, quality assurance and effective cost management.

Optimising the Tax Operating Model

When the tax function is transformed through centralization or outsourcing, companies need to review their tax processes to ensure they remain fit for purpose. Many tax leaders see change as an opportunity to reevaluate processes, applying a Lean Six Sigma approach to define the future of tax processes at their organization.

Any strategic review of processes will need to be aligned with the company's vision for their tax technology strategy. Tax authorities are investing heavily in digital solutions, which is vastly improving their ability to gather more tax information and gain better insights into the tax and financial

positions of taxpayers. Taxpayers and their advisors also need to embrace new technologies – to enable compliance with the new real-time reporting requirements and operate more accurately and efficiently.

As part of their tax risk management strategy, boards should seek to ensure that they have an appropriate governance model and tax control framework in place, including active management of tax authority relationships in major jurisdictions.

Managing performance of the tax function

Setting appropriate KPIs for the tax function and measuring performance against these will help identify any adjustments to the strategy or improvements to the processes, technology or controls that may be needed.

Boards need to be:

- Confident that the tax strategy is being implemented as envisioned
- Comfortable that the tax function has appropriate internal control procedures in place
- Secure that they can rely on prompt and precise tax reporting to support informed decision-making.

How can the board become more proactive in this area?

Establish a clear tax strategy

To remain competitive and compliant in today's environment, every company should develop and implement a clear tax strategy, including setting parameters and principles, and establishing a robust and well-documented control environment.

Engage with & communicate the tax strategy

While there are currently no plans in Switzerland to require companies to publish their tax strategy by law, ESG initiatives such as the Global Reporting Initiative and its new tax Standard GRI: 207: Tax are encouraging boards to clearly and consistently articulate their tax strategy to external stakeholders.

Address any deviations from the tax strategy

Having a clear process in place to escalate any deviations from the tax strategy as articulated will enable the board to address and resolve any issues in a timely manner.

Enable dialogue with tax management

Boards are looking to be sufficiently informed on tax risk management matters, to understand issues that have been raised at the board level, and to ask the right questions.

Consider independent tax function reviews

Many boards are considering engaging a suitably qualified and independent professional services firm to discuss their tax strategy and review their tax processes on a regular basis.

Stay up to date

As the world of tax transforms, organizations will need to develop tax teams that, besides the requisite legal and accounting knowledge, also have new skills. They will need to understand tax technology and data analytics – critical for both compliance and strategic decision-making. Understanding communications will be vital for managing and mitigating reputational risk. And understanding the business will be crucial for ensuring the tax function adds its full potential value.

What questions should the board consider?

- Does our organization have a documented tax strategy? Is it aligned to the overall business strategy?
- Is our tax strategy acceptable to investors and other stakeholders? How do we communicate our strategy internally and externally?
- What activities should be retained within the tax department, and what could be outsourced?
- Are we making the best use of available tax technology, and what is our technology strategy for the future?
- What are our tax risks, and how significant are they?
- How do our control systems mitigate our tax risks? Are controls performed and documented in a timely manner?
- How accurate is the tax information provided for financial and tax reporting obligations?
- Are we paying the right amount of tax?
- How do we compare with our peers?

About the KPMG Board Leadership Center

The KPMG Board Leadership Center offers support and guidance to board members. We equip you with the tools and insights you need to be highly effective in your role, enabling you to focus on the issues that really matter to you and your business. In addition, we help you to connect with peers and exchange experiences.

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Contact

KPMG AG

Badenerstrasse 172
PO Box
8036 Zurich

kpmg.ch/blc

Stefan Kuhn

Head of Tax & Legal

+41 58 249 54 14

stefankuhn@kpmg.com

Christoph Funke

Global Compliance & Transformation

+41 58 249 28 06

christophfunke@kpmg.com

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