KPMG

cutting through complexity

TAX

# Good, Better, Best

Australia

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# Introduction

For the KPMG network, a top priority is helping member firm clients manage tax transformation and position their businesses for future success. Since 2006, we have conducted regular surveys of tax executives around the globe to uncover their most pressing issues. Our purpose is to gain insights on how these issues influence changes in structure, investments in people and processes, and overall objectives and priorities.

Now, in this updated survey conducted in late 2012, the environment in which tax directors operate has changed dramatically. Lingering economic uncertainty is increasing pressure on companies to cut costs and on tax authorities to boost revenue. Globalisation continues to spur Centralisation of finance, tax and other functions. Companies are expected to improve their governance, accountability and transparency in all areas. Further, political attitudes toward taxation are shifting, with much more focus on civic responsibility and public demands that companies should pay their "fair share" of tax to the jurisdictions where they earn profits.

With this environment as a backdrop, we sought to identify trends and benchmarks on the following fundamental questions:

- How are tax departments changing their operations to address emerging economic, business and regulatory trends?
- How are they progressing on aspects of governance and performance such as strategy, risk management and measurement?
- How are they approaching process and technology investment and improvement, including the impact of cloud computing?
- How are they addressing the pressure to more effectively resource how they do their work?
- How are they responding to rising tax authority scrutiny and demands?

The survey now shows that tax departments have made good progress in several of these key areas. However, in a rapidly changing business and regulatory environment, the results also suggest that there is still work to do if tax departments are to meet the dual challenges of effectively managing risk while providing more effective, real-time support to business activity and influence on the bottom line.

# Focus on Australia

**Based on KPMG International's survey of tax executives, tax departments of Australia-based companies are:**

- **Gaining more interest and guidance from boards and upper management** in the development of tax department strategies which are consistent with the company's broader objectives.
- **Highly focused on managing tax risk**, due to factors which include rising reputational risk and the Australian tax authority's risk-based approach to tax inspections.
- **Centralising the direction and management of the global tax function within headquarters tax departments**, but at a slower pace than their global peers.
- **Less focused on gaining efficiencies through standardisation of tax department and compliance activities**, with reported levels of standardisation declining across the compliance cycle since 2009.
- **More focused on compliance, reporting and risk management than other activities**, which limits their opportunity to add value across the organisation – a situation that could worsen as cost pressures and compliance burdens continue to increase.

KPMG's series of benchmarking surveys of tax department structures and operations has shown that leading tax departments – those that add the most value to their businesses – do so by putting high priority on three areas:

1. ensuring clarity of accountabilities
2. driving standardisation and efficiency
3. promoting connectivity with their colleagues across the business through a proactive, outward-reaching tax department.

In conducting the survey in late 2012 on behalf of KPMG's member firms, we were keen to see how global tax departments have progressed in these areas, especially given ongoing economic uncertainty and continuing regulatory reform.

This report highlights insights from the survey on how Australian-based tax departments have advanced since our last survey in 2009. For analysis of the global survey results, read *Good Better Best*, and visit kpmg.com/goodbetterbest for more country reports, industry-related data, interactive tools and more.

## Clarifying accountabilities – board-tax department interaction rises

Three years ago, when this survey was last conducted, Australian-based tax departments were already well ahead of their counterparts globally in having in place tax strategies that are consistent with their overall business strategy. In the current survey, results are even higher – 96 percent of Australian-based respondents say they have a strategy in place currently, up from 93 percent in 2009.

**96%** of Australian-based tax departments have a strategy that aligns with their overall business strategy

Board approval of these strategies increased slightly, from 75 percent in 2009 to 78 percent currently, while board approval of the company's approach to risk management, at 84 percent, is even higher.

The big change is in the percentage of respondents who say their tax strategy was developed with guidance from the board or corporate leadership, which rose from 58 percent in 2009 to 78 percent currently. For 78 percent of Australian-based respondents, the board and/or corporate leadership are directly involved in providing guidance on the tax strategy – a significant increase from 2009 (60 percent) and slightly higher than the global average (73 percent).

**78%** of these strategies were developed with board or corporate leadership guidance, up from **58%** in 2009

In the aftermath of the financial crisis, heightened board interaction with the tax function is occurring in most countries. Investors, regulators and other stakeholders are sharpening their focus on tax controls and governance. Reputational risk related to tax is more important, and Australian-based companies are more risk-averse, both when it comes to tax and in general. There also is a greater desire for Australian boards to be involved in tax strategy and key tax decisions – a point that the Australian Commissioner has pushed for several years.

The Australian emphasis on tax risk is evident from results related to documentation, which is important for ensuring strategies and policies are followed: only 52 percent of Australian-based tax departments have formally documented their tax strategy while 72 percent have formally documented their company's approach to managing tax risk.

**52%**
of Australian-based tax departments have formally documented their tax strategy

The reason why levels of board engagement reported by Australian respondents are higher than in most countries may be due in part to the Australian tax authority's consistent focus on tax governance and its risk-based approach to tax audits. Under this approach, the tax authority bases the extent of its interaction with large taxpayers on its evaluation of the strength of the company's tax governance policies and controls. Respondents from countries in which tax authorities have adopted similar programs, such as the United Kingdom and Canada, also report higher levels of board-tax department interaction than respondents from other countries.

**72%**
have formally documented their tax risk management approach

When asked where they expect their tax department would devote its time over the next 12 months, Australian-based respondents give the highest rankings to financial reporting and tax compliance. These activities are expected to occupy 26 percent and 21 percent of tax department time respectively, which are significantly above global averages. Managing tax risk ranks third in terms of the amount of time spent, expected to occupy 9 percent of tax department time, which also exceeds the global average. This result may be due to increased compliance arising from the International Dealings Schedule and the Reportable Tax Positions that was recently introduced in Australia.

## Driving efficiency – responses to pressure to reduce costs

While Australian-based tax departments are more centralised than they were in 2009, they appear to be moving less quickly in this regard than their global counterparts. Currently, 60 percent of respondents say their company has a headquarters tax function that directs, manages and coordinates the global tax function, up from 45 percent in 2009. The result is in line with the global trend (76 percent report having a headquarters tax function, up from 56 percent in 2009), but tax function centralisation appears to be occurring in Australia among fewer companies and at a slower rate.

**60%**
of Australian-based respondents have a headquarters tax function, up from **45%** in 2009

Despite their focus on managing tax risk, Australian-based respondents appear less focused on standardising tax departments and tax compliance activities than their global counterparts. The most standardised areas of the global tax function for Australian-based companies are in tax staff accountabilities, followed by controls and tax policies and procedures. These results are in step with the global results. However, in terms of the annual tax compliance cycle (from forecasting through financial reporting, filing of returns and reconciliation), levels of standardisation reported by Australian-based respondents have slipped from 2009. Reported standardisation across the compliance cycle is now below the global norms.

Perhaps in response to pressure to reduce costs, Australian-based respondents appear to be doing more of their tax work in-house. Currently, 36 percent of Australians say they use other finance resources to carry out or support tax function responsibilities, up from 28 percent in 2009; 46 percent of Australian-based respondents say they use outsourcing, while 50 percent use a finance or accounting shared service centre for this purpose. These results are above global norms.

**46%**
of Australian-based respondents outsource tax department activities

Even though the use of outsourcing appears to be declining globally, more Australian-based respondents are outsourcing tax work than those in other countries. Further, Australian-based companies that do use outsourcing are making much more use of third-party providers than they did in 2009. For example, 90 percent of these companies say they outsource corporate income tax compliance work (38 percent in 2009), 67 percent outsource tax controversy support (19 percent in 2009), and 67 percent outsource overseas corporate income tax compliance (also 19 percent in 2009).

**50%**
source tax work to shared service centers

Key factors in decisions regarding what tax compliance activities to outsource are improved management and visibility, headcount and cost reductions and lack of internal resources. This has lead to some tax departments to use shared services centres in undertaking tax reporting and tax compliance, while others pursue the external tax outsourcing option.

These results suggest that, while some Australian-based tax departments are taking work in-house to reduce costs, others are becoming more strategic in their sourcing practices and more confident in accessing specialised tax resources when business needs arises.

## Promoting connectivity – overshadowed by compliance

Connectivity between the tax department and other departments is important to ensuring that tax teams are collaborating as proactive business partners in setting and advancing business objectives and contributing value to the company. As noted, among Australian-based respondents, tax compliance and financial reporting activities take priority over value-adding activities.

**55%**
of Australian-based tax departments' time is expected to be spent on compliance, reporting and managing audits, compared to **50%** globally

Integration with business groups and early indication of routine transactions rank low in priority, both in terms of how the tax function is measured and where tax function time is expected to be spent. Even though Australian-based tax departments are interacting more with boards and upper management, the focus on compliance and managing risk appears to be leaving ever less time for other, more value-adding activities like cash tax planning and connecting with the rest of the business. The pressure on resourcing and costs also appears to limit the ability of tax departments to free themselves to pursue standardisation and technology solutions.

**15%**
is expected to be spent on cash tax planning, business integration and early indication of non-routine transactions, compared to **17%** globally

In the future, it seems likely that Australian-based tax departments will have even less time for activities beyond tax compliance. Currently, 62 percent of Australian-based respondents are involved in some form of tax controversy, and reported levels of disputes are rising in the areas of corporate income tax, local (state) income tax, and transfer pricing. Further, Australia's recent and extensive tax reforms have heightened the complexity of the tax system, increasing the compliance burden and potential for tax disputes alike.

However, most Australian-based respondents do not seem prepared to pursue change to improve their ability to meet the challenges ahead. Surprisingly, 80 percent of Australian-based respondents believe their administrative budget is sufficient, and 78 percent believe the level of investment in technology and tax process improvement in their tax department is "just right". Only 14 percent of Australian-based companies expect their tax department structure to change in the near future. Consistent with other survey results, this seems to be driven by cost reduction and the creation of efficiencies.

As global economic uncertainty continues, pressure to reduce costs will continue to mount. As compliance burdens escalate, Australian tax departments that continue to do business as usual could find themselves falling behind. Through additional standardisation, process improvement and tax technology, Australian-based companies have opportunities to boost efficiency so they can keep up with their compliance, freeing more of their time to focus on the more value-adding aspects of the tax department's role.

## Blueprint for change

As tax departments struggle to cope with mounting regulatory and cost pressures, leading organisations are seeing that a transformational approach can show the way forward. KPMG International's research has distilled the following steps as crucial elements in a tax department's blueprint for change.

1. Establish a common purpose by aligning strategic goals and objectives of the tax department with those of the wider company.
2. Define one view of performance to monitor effective tax management by clarifying requirements and how performance is measured and valued, through agreed-upon KPIs.
3. Ensure the tax department has high-performing teams with the right number of tax professionals and the right mix of training, skills and experience.
4. Embed processes to realise the tax management strategy in a way that is measurable and sustainable for the long-term.
5. Set systems and procedures to produce, exchange, and distribute timely and accurate information to the right people, at the right time, and in the right format.
6. Employ enabling technologies (e.g. enterprise resource planning systems, tax software) to automate labour-intensive processes that consume resources and increase risk.
7. Influence stakeholders by understanding their goals and constraints and communicating with them to help achieve the goals.
8. Set processes and priorities and align the tax department's structure to promote connectivity and collaboration between tax teams and other departments.

## About the survey

- KPMG International's global survey of people in charge of tax policy and operations of businesses worldwide is one of the largest surveys of its kind.
- Iterations of the survey have been conducted regularly since 2006, charting the evolution of leading tax functions and identifying operational benchmarks for high-performing tax teams.
- For the current survey, 1,150 heads of tax in 22 countries, including 50 respondents in Australia, took part in blind telephone surveys to share their opinions on how tax departments are adapting to current business challenges. About 700 of the respondent companies are Fortune 500, Forbes 2000 or equivalent companies.
- To gain more clarity on the telephone survey results, additional in-depth interviews were conducted with several clients of KPMG member firms and tax professionals worldwide.

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