KPMG

cutting through complexity

TAX

Good, Better, Best

France

kpmg.com/tax

Contents

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 France

Based on KPMG International's survey of tax executives, tax departments of multinational companies based in France are:

- **attracting more board-level interest in their tax department's strategies and risk management processes,** in part due to rising levels of tax litigation activity and growing reputational risk
- **less focused on benchmarking to set targets for and measure tax department performance** by setting key performance indicators, even in high-priority areas such as managing tax risk
- **centralising activities within headquarters tax functions and standardising tax department activities and processes** less rapidly than their global counterparts
- **making more strategic use of outsourcing and co-sourcing** than their global peers to access specialised tax resources when business needs arise
- **potentially missing opportunities to gain more value from their tax departments** due to their emphasis on tax compliance and financial reporting activities at the expense of integration with other business units, cash tax planning and other, more value-adding pursuits.

KPMG's series of benchmarking surveys of tax department structures and operations has shown that leading tax functions – 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 function.

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

This report highlights insights from the survey on how tax departments in France have advanced since our last survey in 2009. For analysis of the global survey results, read *Good Better Best 2012,* and visit kpmg.com/goodbetterbest for more country reports, industry-related data, interactive tools and more.

Clarifying of accountabilities – rising reputational risk attracts board-level attention

Since 2009, multinational companies based in France have made good progress in the adoption of tax strategies that are consistent with their overall business strategies. Currently, 98 percent of France-based respondents say they have such a strategy, up from 83 percent in 2009.

98%
of France-based tax departments have a board-approved strategy that aligns with their overall business strategy

Survey results show that upper management and directors have started taking more interest in and responsibility for tax matters within the company: 70 percent of respondents in France say their board has approved their tax department's strategy in, compared to 40 percent in 2009, and 60 percent say their board or upper management was directly involved in guiding the strategy's development, up from 20 percent in 2009.

70%
have a board-approved approach to risk management

Compared to their global counterparts, France-based companies are more focused on tax risk oversight: 82 percent of respondents report having a documented approach to risk management, compared to the global result of 71 percent, and 84 percent say that their board or corporate leadership had approved their tax risk management approach, compared to 75 percent globally.

The increased board-level attention to tax and the emphasis on tax risk management is largely due to the rising reputational risk related to tax in the aftermath of the global economic crisis. Since 2008, investors, regulators and other stakeholders have sharpened their focus on tax controls and governance, and reputational risk related to tax in France and throughout Europe has grown more severe.

Even though boards of companies based in France have begun to take more interest in their tax department's strategies and risk management activities, there appears to be less focus on measuring tax department performance than in other countries. French-based companies may be missing opportunities to derive more value from their tax departments as a result.

For example, when asked if their company had set key performance indicators (KPI) to set targets for and measure their tax department's performance, only 64 percent of respondents from France say they have KPIs related to tax risk management, compared to 72 percent globally, and only 56 percent had KPIs for tax return compliance, compared to 76 percent globally. Even fewer respondents from France had KPIs for other activities such as financial reporting, optimising the effective tax rate, and cash tax savings/tax deferral.

Driving efficiency – less focus on centralising and standardising tax activities

In many other countries, tax departments have undergone rapid centralisation in the past three years, and this has occurred among companies based in France but to a lesser degree. Currently, 64 percent of respondents say their company has a headquarters tax function that directs, manages and coordinates the global tax function, up from 58 percent in 2009. In contrast, 76 percent of respondents globally report having a headquarters tax department currently, up from 56 percent in 2009.

64% of companies based in France have a centralised headquarters tax department, up from **43%** in 2009

However, France-based respondents were more likely than their global peers to report having employees with tax responsibilities for particular regions or multiple countries and for single countries. About half of these employees report directly to the headquarters tax department. This higher prevalence of employees with country-specific or regional responsibilities may be due to the relative simplicity of France's tax system, compared to the rising complexity of most other tax regimes in which the company operates.

Compared to their global peers, tax departments in France appear to give less priority on standardising their tax department's activities and processes. Only 56 percent of respondent companies in France have global standards related to tax policies and procedures, compared to 70 percent globally. French-based respondents give lower rankings than others to the levels of standardisation globally of their tax controls, processes, technologies and the roles and responsibilities of tax personnel. Levels of standardisation across the tax reporting compliance cycle, from forecasting through financial reporting, filing of returns and reconciliation, are also ranked below global averages.

56% of respondents from France say they have global standards for tax policies and procedures

A possible reason for the lower levels of centralisation and standardisation may be the relatively higher number of employees with tax responsibilities in other departments, such as the finance and human resources functions. For example, 30 percent of France-based respondents say that finance resources carry out or support tax department responsibilities (25 percent globally), and 32 percent use finance or accounting shared service centres for this purpose (30 percent globally). Additionally, 10 percent of France-based respondents reporting having 11 – 20 full-time employees in other departments doing tax work (5 percent globally), and 52 percent have tax work done by 1 – 10 full-time employees in other departments (48 percent globally).

In addition to greater use of co-sourcing and shared service centers to conduct tax-related activities, tax departments in France report more use of outsourcing than their global counterparts. The types of work outsourced that saw the biggest increases since 2009 were in the areas of tax controversy support (72 percent of those respondents that outsource tax work), indirect tax compliance (48 percent) and corporate income tax compliance (40 percent).

50% of France-based respondents outsource tax department activities, compared to **34%** globally

Lack of availability of internal resources to complete work and freeing up internal resources for other tasks were named as the most important characteristics driving decisions on what compliance activities to outsource or co-source.

These results reflect the rising levels of tax litigation in France and other countries. They also may suggest that the biggest tax compliance challenges facing tax departments in France relate to taxes imposed in their other countries of operation. Results also indicate that France-based tax departments may be more strategic in their sourcing practices than their global peers and more confident in accessing specialised tax resources when a business need arises.

Promoting connectivity – Majority of time spent on compliance and reporting

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. Despite the relative simplicity of France's tax system, which essentially bases taxable income on legal financial accounts with some adjustment, France-based companies appear to give surprisingly high priority to tax return compliance and financial reporting activities. 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.

38% of tax department time is expected to be spent on financial reporting and tax compliance activities in the next 12 months

For example, when asked where they expect their tax department would devote its time over the next 12 months, France-based respondents gave the highest rankings to accurate/timely financial reporting and tax return compliance: each were expected to occupy 19 percent of tax department time. Integration with business groups and early indication of non-routine transactions are only expected to occupy 7 percent of tax department time.

Only 7% of time will be spent on integration with business groups

Other value-adding activities are also afforded less time and priority. For example, 12 percent of France-based tax department time is expected to be spent on optimising the company's effective tax rate and 10 percent will be spent on optimising cash tax savings/tax deferral.

Over 1/2 of respondents from France are involved in tax controversy

As noted briefly above, it seems likely that tax departments in France will have to devote even more time to compliance and managing tax audits and controversy in the future than they do now. While tax disputes related to indirect taxes and local (state) income taxes has dropped since 2009, 54 percent of France-based respondents are involved in some form of tax controversy. The percentage of France-based respondents reporting controversy activity over country-based (federal) corporate income taxes rose to 32 percent currently (from 13 percent in 2009), while 26% are involved in transfer pricing controversy (from 17 percent).

Over 1/4 are involved in transfer pricing disputes

However, there are signs that many France-based tax departments are working to improve the efficiency and quality of their tax department activities and processes:

- 76 percent of France-based tax departments have or will undertake process-related improvements
- 72 percent are undertaking overall tax strategy and operational reviews
- 72 percent are improving training for existing staff.

While 82 percent of respondents from France are satisfied with current levels of investment in technology and tax process improvement for their tax department, just over half of them are engaged in projects involving tax technology-related improvement.

For organisations seeking to derive the most value from their tax departments, these indications are encouraging. Without additional investment in tax process improvements and automation, tax departments in France will be increasingly challenged as rising tax complexity and pressure to reduce costs continues to mount. Through additional standardisation, process improvement and tax technology, forward-thinking companies based in France will be better able to boost efficiency, keep up with their compliance. Most importantly, these improvements will free up more time for tax teams to reach out to their colleagues across the business so they can provide effective, real-time support to business activity and influence the bottom line.

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 2012 survey, 1,150 heads of tax in 22 countries, including 50 respondents from France, took part in blind telephone surveys to share their opinions on how tax departments are adapting to current business challenges. About 700 of 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.

kpmg.com/socialmedia

Designed by Evalueserve.

Publication name: Good, Better, Best – France

Publication number: 121477

Publication date: February 2013