KPMG

cutting through complexity

TAX

# Good, Better, Best

Mexico

kpmg.com

# 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 Mexico

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

- **Adopting company-wide, board-approved strategies for their tax departments** which support their broader business strategies of international expansion in response to an increasingly global marketplace and an uncertain economy.
- **Facing a period of considerable uncertainty over their newly elected government's approach to tax policy** and the nature of any new tax reforms that may be put in place.
- **Driving the efficiency and effectiveness of their tax department's performance through extensive centralisation and process and technology improvements,** in part due to intensifying pressure to reduce costs.
- **Well ahead in their adoption of cloud computing technology,** compared to their global peers.
- **Expected to devote increasing proportions of their time and resources to managing tax compliance and tax authority audits** at the expense of activities that proactively support the business and influence the bottom line, in the absence of additional investments to improve the efficiency of their tax processes and controls.

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 tax departments in 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 based in Mexico 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 interest in tax matters increases

Faced with an increasingly global marketplace and an uncertain economy, multinational companies based in Mexico have been forced to adapt to a highly-complex operating environment. Following the November 2012 elections, companies in Mexico now face a period of considerable uncertainty over the new government's approach to tax policiy and the nature of any new tax reforms that may be put in place.

In the past 3 years, companies based in Mexico have made strides in improving the governance and clarifying accountabilities within their tax departments. Most of them have now implemented global tax strategies that are consistent with their companies' overall business strategies – 94 percent of respondents in Mexico say they had such a strategy, an increase from 87 percent in 2009.

**94%**
of Mexican global tax departments have a strategy that aligns with their overall business strategy

Respondents from Mexico also report greater interest and interaction between boards, upper management and tax departments in developing the company's tax strategy. The percentage of respondents who say their tax strategy has board-level approval rose from 80 percent in 2009 to 86 percent currently. For 84 percent of Mexico-based respondents, the board and/or corporate leadership are directly involved in providing guidance on the tax strategy – an increase from 2009 (57 percent) and slightly higher than the global average (73 percent).

**86%**
of tax department strategies are board-approved

Mexico-based respondents are more focused than their global counterparts on documenting their tax department and risk management strategies, which is important for ensuring strategies and policies are followed: 90 percent of Mexico-based tax departments have formally documented their tax strategy, compared to 71 percent globally, and 94 percent have formally documented their company's approach to managing tax risk, compared to 63 percent globally.

The majority of Mexico-based respondents have sought to improve the governance and oversight of their global tax management processes by establishing centralised tax departmments. The percentage of respondents in Mexico who say their company has a headquarters tax department that directs, manages and coordinates the global tax department rose from 60 percent in 2009 to 92 percent currently, which significantly exceeds the global result of 76 percent. Additionally, 90 percent of respondents in Mexico say their company has global standards related to tax policies and procedures (70 percent globally).

**92%** of Mexican global companies now have a headquarters tax department, up from **60%** in 2009

**90%** have global standards for tax policies and procedures

## Driving efficiency – focus on improving standardisation and controls

Compared to their counterparts based in other countries, Mexican global companies are investing more in improving their efficiency and accuracy of their tax and finance controls and processes. For example, 90 percent of them have process-related projects in progress or under consideration (compared to 61 percent globally); 84 percent are improving tax staff training (also 61 percent globally); and 82 percent are now or considering overall tax strategy and operation reviews (62 percent globally).

Respondents in Mexico are also ahead of their global peers in adopting the use of cloud computing technology; 72 percent of respondents report that their company uses cloud computing, compared to 38 percent globally, and 42 percent use it for the storage of accounting and/or transactional data, compared to just 18 percent globally.

Presumably as a result of their investments in technology and process-related improvements, respondents in Mexico report higher levels of standardisation of their global tax departments and activities than their global peers. The most standardised areas of global tax department for Mexican companies are in tax staff roles and accountabilities, followed by learning, development and career path for tax personnel and tax policies and procedures and. In terms of the annual tax compliance cycle (from forecasting through financial reporting, filing of returns and reconciliation), reported standardisation is also well above global averages.

Currently, it appears that this progress on standardisation and automation has resulted from changing priorities of finance functions in the past few years, rather than of tax departments. For example, a high majority of respondents agreed that their company's finance leadership drives standardisation of the global tax department to some extent, with 42 percent saying finance leadership drives standardisation "relentlessly" (compared to 15 percent globally).

Results suggest that Mexico-based tax departments are becoming better at leveraging their sourcing models, for example, by improving their use of outsourcing, co-sourcing and shared service centres. Currently, 68 percent of respondents in Mexico say they use outsourcing to carry out or support tax department responsibilities, compared with 34 percent globally; 58 percent use a finance or accounting shared service centre to support the tax department, and 48 percent rely on other finance resources for this purpose.

**68%**
respondents in Mexico outsource tax department activities to external advisers

For those companies that outsource or co-source tax department activities, over 90 percent of them now outsource corporate income tax compliance, statutory accounting/reporting preparation, corporate income tax provision work, tax controversy support, tax planning and business support and payroll compliance.

**97%**
of these respondents outsource or co-source corporate income tax compliance

Improved management and visibility over compliance activities and access to compliance technologies were named as the most important characteristics driving decisions on what compliance activities to outsource or co-source.

Overall, these results suggest that these Mexican global companies have recognised the benefits of accessing tax resources with highly specialised and/or local knowledge and more confident in accessing these resources when a business need arises.

## Promoting connectivity – room for improvement

Companies based in Mexico are making significant progress in establishing a global, strategic overview of their finance and tax functions, supported by efficient management processes. But further improvements are needed to encourage and enable tax departments to contribute their full value.

**59%**
of tax department time will be spent on tax compliance, financial reporting and managing tax audits

Survey results show that tax departments of Mexico-based companies are highly focused on compliance and reporting activities. Other, more value-adding activities, such as integration with the business, are lower in priority. Lack of connectivity between the tax department and other departments limits the ability of tax teams to collaborate as proactive business partners in setting and advancing business objectives and contributing value to the company.

When asked where they expect their tax department would devote its time over the next 12 months, respondents in Mexico gave the highest rankings to tax compliance and financial reporting. These activities are expected to occupy 24 percent and 25 percent of tax department time respectively, while managing tax audits is expected to take up 10 percent.

**28%**
of time will be spent on integration with the business, optimising ETR and cash tax savings/tax deferral

However, integration with business groups and early indication of non-routine transactions is expected to occupy only 5 percent of tax department time. Other value-adding pursuits are also allotted less time than compliance-related work in the coming year: only 14 percent of tax department time will be spent on optimising the effective tax rate and 9 percent will be spent on cash tax savings and tax deferrals.

In the future, it seems likely that tax departments in Mexico will have to devote an even greater proportion of their resources to compliance and managing tax audits in the future. Mexican tax authorities are growing increasingly sophisticated, with respondents reporting much more audit focus on reviews of tax and accounting processes and controls, VAT, transfer pricing and social security taxes.

Indeed, in the past 3 years, reported levels of disputes from Mexican respondents have risen sharply. Currently, 78 percent of respondent Mexican countries are involved in some form of tax controversy. For example:

- 60 percent are involved in indirect tax (sales/use or VAT/GST) controversy, up from 27 percent in 2009
- 58 percent are involved in transfer pricing disputes, up from only 10 percent in 2009
- 52 percent are involved in federal (national) corporate income tax controversy, up from 40 percent in 2009.

Depending on the policy direction of Mexico's new government, it is possible that tax audit and dispute activity could rise even higher, leaving the tax departments of Mexico-based companies with even less time and resources to devote to proactively supporting business activity and influencing the bottom line.

However, there are encouraging signs that many forward-thinking companies may be preparing to invest more in the efficiency, effectiveness and connectivity of their tax departments. For example, 42 percent of respondents in Mexico expect changes in the structure of their tax department, compared to 19 percent globally. Of these companies, the primary reasons for the change are to improve controls (60 percent), reduce costs (67 percent) and/or to improve alignment with business and/or finance function structure and needs.

Given the challenges ahead, global companies based in Mexico need to reconsider whether their tax departments are well equipped to balance managing tax risk, ensuring compliance and creating value. By taking action to improve the tax department's connectivity, while continuing to improve the efficiency of their tax processes and controls, tax departments in Mexico have significant opportunities further enhance their value to and profile within the company.

**Over 3/4**
of Mexico-based companies are involved in tax controversy

**Over 1/2**
are involved in controversy involving indirect tax, transfer pricing, corporate income tax and/or customs/duties

**42%**
expect their tax departments will be restructured, primarily to improve controls, reduce costs and/or improve connectivity with the rest of the business

## 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 departments 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 Mexico, 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 – Mexico

Publication number: 121477

Publication date: February 2013