KPMG

cutting through complexity

TAX

Good, Better, Best

Argentina

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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. Globalization continues to spur centralization 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 Argentina

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

- **attracting more interest and involvement from boards and senior management** in the development and guidance of tax strategies that align with the company's overall business strategy, primarily due to measures adopted by the country's national, provincial and municipal governments on tax, foreign trade and exchange matters
- **analyzing the consequences of recent measures adopted by the National Government,** which has rendered ineffective some double tax conventions (such as those executed with Austria, Switzerland, Spain and Chile) and has executed a number of tax information exchange agreements with other countries
- **dealing with the stepped-up efforts of the Argentine tax authorities,** which have sharpened their focus on international transactions, among other areas, to increase tax revenues
- **devoting about half of their time to compliance, reporting and managing tax audits to meet the increasing number of obligations imposed by the tax authorities,** especially the provincial and municipal authorities, and devoting less time to other, more strategic pursuits
- **not prepared to invest in improving the efficiency and effectiveness of their tax departments,** despite the significant opportunities that exist to free up time so that their tax teams may engage in activities that contribute value.

KPMG International's series of benchmarking surveys of tax department structures and operations shows 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 standardization and efficiency
3. promoting connectivity with their colleagues across the business through a proactive, outward-reaching tax function.

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

This report highlights insights on how tax departments in Argentina have advanced since our last survey in 2009. For analysis of the global survey results, visit kpmg.com/goodbetterbest.

Clarity of accountabilities – tax and reputational risk captures boards' attention

Tax departments in Argentina appear to be well advanced in establishment of clear accountabilities. Currently, almost all survey respondents in Argentina report having a tax strategy that is consistent with their company's overall business strategy, and 84 percent say their board or corporate leadership was directly involved in guiding the strategy's development.

Compared to their global counterparts, Argentina-based companies are more focused on the oversight of tax risk: 78 percent of respondents report having a documented approach to risk management, above 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.

This high level of board-level attention is mainly driven by the need for company directors to analyze how recent measures adopted by the National Government in relation to tax, customs and exchange matters affect the business.

Companies in Argentina now face increasing audit activity from the tax authorities at all jurisdictional levels. The tax authorities are increasingly targeting international transactions, and transfer pricing and thin capitalization transactions are under more scrutiny.

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

84%
say their board or corporate leadership provided direct guidance on the strategy's development

Currently, 60 percent of respondents in Argentina say they are involved in some form of tax controversy. In some taxation areas, tax dispute levels are higher than they are globally. For example:

- 44 percent are involved in indirect tax (sales/use or VAT/GST) controversy, compared to 33 percent globally
- 28 percent are involved in transfer pricing disputes, compared to 24 percent globally
- 24 percent are involved in controversy involving people taxes (i.e., social security, personal income taxes), compared to 19 percent globally.

However, the level of tax controversy in Argentina is the lowest of the Latin American countries covered by the survey.

60%
of Argentina-based respondents are involved in some form of tax controversy

This mounting tax risk is causing boards and corporate leadership to take much greater interest in how tax compliance is managed in their companies, and interaction between boards and tax departments seems to have increased. Combined with the need for tax staff to analyze the business impact of the latest tax, customs and exchange measures, it appears that companies in Argentina have become more likely to recognize the potential of the tax department to contribute value than companies based in other countries.

Driving efficiency – good progress on improving tax processes and controls

In response to rising tax risk and pressure to reduce costs, many Argentina-based tax departments are putting more priority on investments in improving their tax and finance function processes and controls, relative to their global peers.

78%
of Argentina-based tax departments are planning or pursuing process-related improvements

For example, 78 percent are undertaking or planning to undertake process-related improvements (compared to 61 percent globally), 66 percent of respondent are conducting or plan to conduct overall tax strategy and operational reviews (62 percent globally), and 54 percent have technology-related improvements planned or in progress (53 percent globally). Investing in better training for existing tax staff being undertaken by 48 percent (61 percent globally), suggesting that improving the skills of tax resources is a lower priority than reducing tax department costs.

Argentina-based respondents also are more likely than their global peers to report global or regional finance function initiatives: 78 percent of them are undertaking process improvements (68 percent globally), 74 percent are undertaking finance function strategic reviews (compared to 61 percent globally), 64 percent are undertaking benchmarking reviews (46 percent globally) and 66 percent are undertaking technology improvements (58 percent globally).

However, this focus on process and technology improvement has not yet resulted in greater standardization of tax department activities. Respondents in Argentina gave lower ratings than their global peers to standardization levels in the areas of responsibilities and accountabilities of tax personnel, tax controls, and learning, development and career

path for tax personnel. Levels of global standardization are close to global averages for activities involved in the annual tax compliance cycle, from forecasting through financial reporting, filing of returns and reconciliation.

Thus, it appears that any progress on standardization and automation has resulted from responses to cost-cutting pressures, rather than efforts to invest in improving tax departments so they can deliver more value.

Another result that presumably stems from this intense pressure on costs is an apparent decline in the use of outsourcing to support tax department activities. Currently, 20 percent of respondents in Argentina say they use outsourcing or co-sourcing to carry out or support tax department responsibilities, compared with 34 percent globally. Given the complexity of the Argentine tax system, outsourcing costs are quite high and it seems that companies based in the country are attempting to do more tax work in-house as a result. About one-quarter of respondents in Argentina say they use a finance or accounting shared service center to support tax department activities, and 12 percent use other finance resources for this purpose.

20% of respondents in Argentina outsource or co-source tax department activities, compared to **34%** globally

Interestingly, the 20 percent of Argentina-based companies that do use outsourcing are making more use of third-party providers for certain tax department activities than their global peers. For example, 90 percent of these companies say they outsource tax controversy support (66 percent globally), 90 percent outsource corporate income tax provision work (47 percent globally), and 80 percent outsource tax planning and business support and/or indirect tax compliance work (58 percent and 50 percent globally).

Overall, the results for these activities indicate that, while most Argentina-based tax departments are taking work in-house for cost-cutting reasons, others are becoming more strategic in their sourcing practices and more inclined to access specialized tax resources for higher-end tax activities when business needs arise.

50% of Argentina-based tax departments' time is expected to be spent on tax compliance, reporting, managing tax audits and managing tax risk in next **12** months

Promoting connectivity – economic and tax climate demands high compliance focus

Tax departments in Argentina put more emphasis on compliance-related activities than they do on improving interaction with other parts of the business – which is crucial for tax departments to achieve their full potential as contributors to business strategy and drivers of value.

In the next 12 months, tax return compliance and financial reporting are expected to occupy 23 percent and 16 percent of tax department time respectively (compared to 20 percent and 19 percent globally). Managing tax authority audits is expected to occupy 8 percent of tax department time (11 percent globally).

The emphasis on compliance is understandable, given the complex nature of the Argentine tax system and the onerous tax filing obligations required at the national, provincial levels and municipal levels. Complying with multiple layers of indirect and income taxes can require some companies to file over 25 tax returns each month.

Nevertheless, less time is left for more strategic pursuits. Only 7 percent of tax department time is expected to be spent on integration with business groups and early indication of non-routine transactions, while the activities of optimizing the effective tax rate and cash tax planning/tax deferral are only allocated 12 and 10 percent respectively.

Unfortunately, it seems likely that this situation will continue. The majority of respondents in Argentina are satisfied with their tax department's current administrative budget (80 percent) and with their company's level of investment in tax technology and tax process improvement (68 percent). While almost one-quarter of respondents in Argentina say they expect their tax department's structure to change in the near future, a primary reason is to reduce costs for 96 percent of these respondents. Only 17 percent say that the change would aim to improve the tax department's alignment with the business and/or finance function structure and needs.

As companies in Argentina continue to struggle with rising tax complexity and intense pressure to reduce costs, opportunities to derive more value from their tax departments are likely being missed. By increasing their investments in standardization, process improvement and tax technology, forward-thinking Argentine companies stand to improve their efficiency, better manage their compliance, and free up tax department time and resources so they can focus on activities that contribute value.

24%
expect their tax department to be restructured in the near future

96%
say a primary reason to restructure is to reduce costs

Only 17%
say a restructure is intended to improve their tax department's alignment with the business

Blueprint for change

As tax departments struggle to cope with mounting regulatory and cost pressures, leading organizations 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 realize 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 labor-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 Argentina, 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.

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