KPMG

cutting through complexity

TAX

# Good, Better, Best

Canada

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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 scrutiny and demands of tax authorities?

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 managing risk while providing more real-time support to business activity.

# Focus on Canada

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

- **Attracting increasing interest and guidance from boards and senior management** in the development of tax strategies that align with companies' overall business strategy.
- **Experiencing relatively less audit activity and controversy than tax departments in other countries included in the survey,** presumably due to previously implemented tax process and control improvements combined with the Canada Revenue Agency's (CRA) new risk-based audit approach.
- **Centralizing their tax activities within a headquarters tax department** more commonly and quickly than their international peers.
- **Outsourcing less tax work and bringing it back in-house** as they realize the benefits of previously implemented standardization, process improvements and technology enhancements.
- **Displaying little appetite for pursuing more process improvements** and putting their future ability to engage in value-adding activities beyond compliance at risk.

KPMG International's series of benchmarking studies 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 department.

In the current survey conducted 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 ongoing economic uncertainty and continuing regulatory reform.

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

## Clarifying accountabilities – board involvement rises

In 2009, Canadian tax departments were already ahead of their global counterparts by having in place tax strategies consistent with their overall business strategies – 98 percent of Canadian respondents answered "yes" to this question in 2009 and the percentage remains the same in the current survey. Tax departments in other countries are starting to catch up – globally, the percentage of respondents having such strategies in place rose from 84 percent in 2009 to 93 percent in 2012.

The big change for Canadian companies is how much more interested their boards have become in tax strategy development and governance. The percentage of respondents who say their tax strategy has board-level approval jumped from 30 percent in 2009 to 80 percent currently. For 76 percent of Canadian 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).

In the aftermath of the financial crisis, heightened board interaction with the tax department is occurring in most countries. Investors, regulators and other stakeholders have sharpened their focus on tax controls and governance, and reputational risk related to tax has grown more important.

The reason why levels of board engagement reported by Canadian respondents are higher than in most countries may be due in part to the CRA's new risk-based approach to tax audits. Under this approach, the tax authority bases audit scrutiny on the strength of the company's tax governance policies and controls.

**98%**
of Canadian-based tax departments have a strategy that aligns with their overall business strategy

**75%**
of tax department strategies are board-approved

**24%**
of Canadian respondents are involved in corporate income tax controversy, down from **45%** in 2009

Countries where tax authorities have adopted similar programs, such as the UK and Australia, report similarly high levels of board-tax department interaction. Interestingly, respondents in both Canada and the UK are reporting less tax controversy activity than in 2009, perhaps as a result of tax authority programs.

**50%** are involved in tax controversy, compared to **62%** globally

Canadian tax departments have become much more centralized in the past 3 years. Currently, 84 percent of respondents say their company has a tax department within their headquarters that directs, manages and coordinates the global tax department, up from 48 percent in 2009. This response is in line with the global trend (76 percent report having a tax department within their headquarters tax department, up from 56 percent in 2009), but tax department centralization appears to be occurring in Canada among more companies and at a faster rate.

**84%** of Canadian respondents have a tax department within their headquarters, up from **48%** in 2009

This may reflect the rising number of companies in the energy and natural resources industries that are headquartered in Canada, which comprise 40 percent of Canadian respondents. These companies may have a greater need for centralized management and direction of tax due to their far-flung operations in less developed locales.

When asked where they expect their tax department would devote its time over the next 12 months, Canadian respondents give the highest rankings to tax compliance and financial reporting. These activities are expected to occupy 18.5 percent and 18 percent of tax department time respectively, slightly below the global norm.

## Driving efficiency – finance functions driving tax department standardization

Finance functions in Canada appear to have increased their focus on standardization and efficiency. The most standardized areas of the global tax department for Canadian-based companies are in tax staff accountabilities, followed by controls and tax staff learning, development and career paths. In terms of the annual tax compliance cycle (from forecasting through financial reporting, filing of returns and reconciliation), levels of standardization reported by Canadians have slipped from 2009, although they remain close to the global norm. This slippage might be due to the rapid pace of centralization that many Canadian companies have recently undergone.

**26%** of Canadian respondents outsource tax department activities

Despite apparent progress on the part of tax departments, it appears that standardization and automation has resulted from changing priorities of finance functions in the past few years, rather than of tax departments. Currently, Canadian respondents are much more likely to agree that their company's finance leadership drives standardization of the global tax department (62 percent currently versus 41 percent in 2009). Positive responses from Canadian companies are also above the global average of 51 percent.

**16%** source tax work to shared service centres

Canadian respondents appear to be doing more of their tax work in-house. In 2009, 73 percent of Canadian respondents said they used outsourcing to carry out or support tax department responsibilities. Currently, only 26 percent of respondents say they use outsourcing, while 16 percent use a finance or accounting shared service centre for this purpose.

That Canadian tax departments rely less on external resources suggests they are maturing. As in many other developed countries, efforts to improve tax systems and processes over the past several years appear to be paying off, allowing Canadian companies to do more of their tax compliance with internal resources.

Despite these gains, most Canadian respondents seem to have little appetite to pursue additional technology and process improvements for greater efficiency. Only 32 percent of Canadian companies are considering or pursuing technology-related improvement projects within their tax department, and fewer than half are considering or undertaking process improvements. Surprisingly, 90 percent of Canadian respondents believe the level of investment in technology and tax process improvement in their tax department is "just right", compared to 74 percent globally.

**90%** of Canadian respondents are satisfied with their level of investment in technology and process improvement

## Promoting connectivity – slight gains at risk

As noted, among Canadian respondents, tax compliance and financial reporting activities are the top priorities. Integration with business groups and early identification of non-routine transactions rank low in priority, both in terms of how the tax department is measured and where tax department time is expected to be spent. Even though Canadian tax departments are interacting more with boards and upper management, they still appear to be operating in silos in relation to the rest of the business.

**46%** of Canadian-based tax departments' time is expected to be spent on compliance, reporting and managing audits, compared to **50%** globally

Nevertheless, there are signs that this focus may be set to change. Compared with their global counterparts, Canadian tax departments plan to spend slightly less time on compliance and reporting and more time on business integration, cash tax planning and other activities that influence the bottom line. Previous efforts to standardize and automate tax processes and controls, combined with lighter tax audit management burdens arising for many companies due to the CRA's enhanced risk-based audit approach, may be starting to free up tax department time and resources.

**20%** of Canadian-based tax departments' time is expected to be spent on cash tax planning, business integration and early identification of non-routine transactions, compared to **17%** globally

Now that Canadian companies are getting their compliance under control, complacency may be their biggest barrier to additional performance improvement. As global economic uncertainty continues, rising tax complexity and pressure to reduce costs will continue to mount. Tax departments that stand still could find themselves falling behind.

Through additional standardization, process improvement and tax technology, Canadian companies have plenty of opportunities to boost efficiency, keep up with their compliance and continue building on the gains they are starting to make in improving integration and adding value.

## 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 the 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 Key Performance Indicators (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 execute 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 their goals.
8. 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 2012 survey, 1,150 heads of tax in 22 countries, including 50 respondents in Canada, 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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