KPMG

cutting through complexity

TAX

Good, Better, Best

India

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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 India

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

- **attracting more interest and involvement from boards and senior management** in the development and guidance of tax strategies that align with the overall business strategy, primarily due to increasing tax risk arising from Indian tax reform and tax audit and litigation
- **putting more priority on investments in improving their tax and finance function processes and controls** to manage rising compliance burdens and increasing tax complexity as they continue to grow and expand into new markets
- **making more use of outsourcing to support their tax department,** primarily to improve management of, and visibility over, compliance activities
- **well advanced in their efforts to standardize tax department roles and processes,** as a result of projects that are being driven primarily by the finance function
- **spending comparatively less time than their global counterparts on compliance and reporting and more time on value-adding activities that influence the bottom line,** but business expansion and increasing compliance needs will require continued investment in tax department efficiency to preserve and build on gains.

KPMG's series of benchmarking surveys of tax department structures and operations shows 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 standardization 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 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 India have advanced since our last survey in 2009. For analysis of the global survey results, visit www.kpmg.com/goodbetterbest.

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

Currently, virtually all India-based respondents report having a tax strategy that is consistent with their overall business strategy. Since 2009, survey results show that upper management and directors have started taking more interest in and responsibility for tax matters: 86 percent of respondents in India say their board has approved the tax department strategy, compared to 63 percent in 2009, and 90 percent say their board or upper management was directly involved in guiding the strategy's development.

Compared to their global counterparts, India-based respondents are more focused on tax risk oversight. While 72 percent of respondents report having a documented approach to risk management, slightly below the global result of 71 percent, 82 percent say that their board or corporate leadership had approved their tax risk management approach, compared to 76 percent globally.

This rise in board-level attention and emphasis on tax risk is being driven by the rapid pace of tax reform in India and extremely high levels of tax controversy in the country. With globalization and the increasing mobility of economic activity, the Indian government is taking strong action to defend its tax base.

86%
of respondents from India say their board has approved the tax department strategy

90%
say their board or corporate leadership provided direct guidance on the tax strategy's development

Survey respondents from India report that tax audit and controversy activity have increased markedly since 2009. Currently, 86 percent of respondents in India say they are involved in some form of tax controversy. In many taxation areas, tax dispute levels are much higher than they are globally. For example:

- 62 percent are involved in indirect tax (sales/use or VAT/GST) controversy, up from 28 percent in 2009
- 46 percent are involved in corporate income tax controversy, up from 38 percent in 2009
- 38 percent are involved in disputes over state (local) income tax, up from 20 percent in 2009
- 24 percent are involved in transfer pricing disputes, up from 23 percent in 2009.

86%
of India-based respondents are involved in some form of tax controversy

These developments are causing boards and corporate leadership to take much greater interest in how tax compliance is managed in their companies. Currently, however, this heightened interest in tax department activities seems to be limited to compliance and reporting only. Boards of India-based companies seem to be less focused on the tax department's potential to contribute value to the company, although it appears that among some respondents this situation is starting to change.

Driving efficiency – finance functions still take the lead

India-based respondents are challenged not only by rising tax risk but also increasing tax complexity as they continue to grow and expand into new markets. In response, many of them are putting more priority on investments in improving their tax and finance function processes and controls.

78%
of India-based respondents are improving or plan to improve tax staff training

For example, 78 percent are improving or plan to improve their tax departments by investing in more tax staff training (compared to 61 percent globally). Additionally, 74 percent of respondents have technology-related improvements planned or in progress (versus 53 percent globally), and 72 percent are conducting or plan to conduct overall tax strategy and operational reviews (versus 62 percent globally). As well, 68 percent plan or are engaged in process-related improvements for their tax departments.

40%
use outsourcing to carry out or support tax department activities

India-based tax departments are making more use of outsourcing to support activities versus 2009 although they rely less on outsourcing than their counterparts in developed countries. Respondents named improved management of and visibility over compliance activities, followed by access to compliance technologies, as the most important reasons. Currently, 40 percent of respondents in India say they use outsourcing to carry out or support tax department activities, compared with 20 percent in 2009, and 54 percent say they use a finance or accounting shared service center for this purpose.

India-based respondents were much more likely than their global peers to report global or regional finance function initiatives, with about 85 percent of them involved in process improvements (versus 68 percent globally), technology improvements (58 percent globally), and/or risk management/controls improvements (versus 69 percent globally).

Presumably due to such initiatives, respondents in India report higher levels of standardization than their global peers in the areas of responsibilities and accountabilities of tax personnel, tax controls, and learning, development and career path for tax personnel. Higher levels of global standardization are also reported for activities across the annual tax compliance cycle—from forecasting through to financial reporting, filing of returns and reconciliation. While efforts to standardize and improve tax functions roles and processes is now evident in the Indian resondents, there is still room for further improvement in these areas to fully realize the benefits.

Further, it appears that the progress on standardization and automation reported by India-based tax departments is a result of from changing priorities of finance functions in the past few years, rather than of tax departments. For example, the majority of India-based respondents agreed that their company's finance leadership drives standardization of the global tax function to some extent, with 42 percent saying finance leadership drives standardization "relentlessly".

42%
of respondents in India say finance leadership drives global standardization of tax processes "relentlessly"

As India-based respondents continue to expand and globalize, they will require larger, more specialized tax teams. Rising tax risk and complexity has given tax departments more prominence within their own companies and their tax directors more profile. In the future, it seems likely that finance functions in India will be compelled to allow tax directors to have more independence and greater control over tax department activities, and the current wave of tax process and technology-related improvements will help enable them to do so.

Promoting connectivity – Moving tax departments to add more value

Compared to their global peers, tax departments in India put emphasis on improving interaction with other parts of the business – which is crucial for them to achieve their full potential as contributors to business strategy and be drivers of value.

40%
of India-based tax department time is expected to be spent on integration with the business, cash tax savings, managing the effective tax rate and influencing tax policy

In the next 12 months, financial reporting and tax return compliance are expected to occupy 13 percent and 15 percent of tax department time respectively (compared to 20 percent and 19 percent globally). Managing tax authority audits is expected to occupy 11 percent of time (matching global response) and 11 percent of their time managing tax risk (versus 8 percent globally).

Compliance-related activities take priority over value-adding activities, but less so than in other countries. Tax departments in India expect to spend 10 percent of their time on integration with business groups and early indication of routine transactions—above the global 7 percent. Time expected to be spent on other value-adding activities such as cash tax savings/deferral (10 percent) and managing the effective tax rate (10 percent) are on par with global response, while time influencing tax policy is higher (10 percent, compared to 6 percent globally).

There are encouraging signs that forward-thinking companies in India are taking steps to promote greater connectivity between their tax departments and other functions. Respondents in India are almost twice as likely to say they expect their tax department's structure to change in the near future (36 percent versus 19 percent globally). Among the most commonly named reasons for the change were better alignment with business and/or finance function (78 percent versus 50 percent globally) and increasing/improving controls (78 percent versus 65 percent globally).

In summary, it now appears that previous efforts to standardize and automate tax processes and controls may be starting to free-up tax department time and resources.

As companies in India globalize their operations and as tax complexity, tax audit and tax controversy activity continues to mount, these companies would do well to continue investing in their tax departments. Through additional standardization, process improvement and tax technology, forward-thinking companies have plenty of opportunities to boost efficiency, keep up with their compliance, and continue building on the gains they appear to have made.

36%
expect their tax department to be restructured in the near future

78%
say improving alignment with the business and/or finance function is a key reason for change

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 India, 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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